



Susan Combs Texas Comptroller of Public Accounts

Comprehensive Annual Financial Report

For the State of Texas for the Fiscal Year Ended August 31, 2012





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Acknowledgments

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The State Auditor, John Keel, CPA, and his auditing staff.

State of Texas

Comprehensive Annual Financial Report

For the Fiscal Year Ended August 31, 2012

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Section One

Introductory Section





February 22, 2013

To the Citizens of Texas, Governor Perry
and Members of the 83rd Texas Legislature:

The Comprehensive Annual Financial Report (CAFR) of the state of Texas for the fiscal year ended Aug. 31, 2012, is submitted herewith. Responsibility for both the accuracy of the data presented, as well as the completeness and fairness of the presentation, rests with the office of the Texas Comptroller of Public Accounts. To the best of my knowledge, the information presented is accurate in all material respects, and all disclosures necessary for a reasonable understanding of the state's financial activities are included.

The reporting approach established by the Governmental Accounting Standards Board (GASB) was utilized. The state also voluntarily follows the recommendations of the Government Finance Officers Association (GFOA) of the United States and Canada for the contents of government financial reports and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting. The state auditor performed an audit, in accordance with generally accepted auditing standards, of the state's general-purpose financial statements. His opinion is presented in this report preceding the financial statements.

The state auditor contracted with KPMG to perform portions of the federal audit procedures necessary to meet the requirements of the federal Single Audit Act Amendments of 1996 and related Office of Management and Budget (OMB) Circular A-133. The federal portion of the Statewide Single Audit Report for the fiscal year ended Aug. 31, 2012, with the opinion expressed by KPMG, will be issued separately.

Profile of the Government

This report includes financial statements for the state of Texas reporting entity. Criteria for determining the reporting entity and presentation of the related financial data are established by GASB. The criteria include legal standing and financial accountability. Other organizations that would cause the financial statements to be misleading or incomplete if they were excluded are also included in the reporting entity. Note 1 of the notes to financial statements provides detail on the financial reporting entity. Note 19 provides a brief summary of the nature of significant component units and their relationship to the state of Texas.

All activities generally considered part of the state of Texas are included in this report. These activities provide a range of services in the areas of education; health and human services; public safety and corrections; transportation; natural resources and recreation; regulation; general government; employee benefits; and teacher retirement state contributions.

The management discussion and analysis (MD&A) in the financial section provides an overview of the state's financial activities, addressing both governmental and business-type activities reported in the government-wide financial statements.

Accounting System and Budgetary Controls

The state's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit.

Budgetary control is exercised through expenditure budgets for each agency. These budgets are entered into the statewide accounting system after the General Appropriations Act becomes law. The General Appropriations Act becomes law after passage by the Legislature, certification by my office that the amounts appropriated are within the estimated collections, and the signing of the bill by the governor. Controls are maintained first at the agency level, with additional control at the fund and appropriation level to ensure expenditures do not exceed authorized limits. Further detail on budgetary accounting for the state is found in the required supplementary information other than MD&A section.

Economic Outlook

Texas' relative job growth advantage over the national economy continues today, as it did before and during the most recent recession. Texas added 278,800 jobs over the 12 months ended in November 2012, and total nonfarm employment reached 10.9 million. The 2.6 percent job growth rate for Texas included increases that spanned all the major industries except information. This was the fastest rate of growth among the nation's largest states and was faster than all but two (North Dakota and Oklahoma) of the nation's 50 states. The comparable national job growth rate was 1.4 percent over the past year.

The average annual unemployment rate in Texas has remained more than one percentage point lower than the nation's unemployment rate in each year from 2009 to 2012. After three years of little improvement, the Texas unemployment rate has eased in recent months from 7.4 percent a year ago to 6.2 percent in November 2012, its lowest level since 2008. The rate of job growth, despite an expanding labor force, should be sufficient to allow continued mild improvement in the unemployment rate.

After a decline of 5.7 percent in 2009, Texas' total personal income rebounded substantially for three years, with average annual growth of 6 percent, boosted by hiring in the oil and natural gas exploration and production sectors. During these three years, the state's income growth rate was faster than the nation's by an average of 1.8 percentage points annually.

Underlying this personal income growth is a population that has been, and will continue to be, fueled by net migration and a relatively high birth rate. Recent estimates by the U.S. Bureau of the Census show that eight of the nation's 15 most rapidly growing large incorporated cities are in Texas. The state's comparatively positive economic picture in the face of a weak national recovery has encouraged interstate migration to Texas. The state population

grew by an estimated 379,000 in calendar 2012, with 202,000 due to net migration. According to the Census Bureau, Texas accounted for nearly 16 percent of the nation's total population growth during the past decade, nearly twice the share that would be expected from its population size.

Texas passed its 2008 pre-recession employment peak in December 2011. As of November 2012, Texas employment has increased by 685,000 from the low point in December 2009, resulting in 258,000 more jobs than those lost in the recession. Nationally, the employment rebound from the recession's low point has been 4.6 million, about half of the 8.8 million jobs lost.

The Job Picture by Industry

Of the eleven major industries of the Texas economy, all except information had net employment growth from November 2011 to November 2012. Goods-producing industries – mining, manufacturing and construction – expanded by 3 percent, exceeding growth in service-providing industries (2.6 percent) for the second year. Goods-producing industries' growth was spurred on by the strength of oil and natural gas exploration and the manufacturing of energy-related machinery and drilling rigs during the first half of the year.

In the 12 months ended in November 2012, the industry that added the most jobs was trade, transportation and utilities, at 69,600 jobs. The industry that had the fastest growth rate, at 6.7 percent, was construction. As in much of the nation, information was by far the weakest major private industry in the state, with a decline of 1.7 percent (3,400 jobs), primarily owing to cuts in the telecommunications sector, but also from another year of job declines among businesses engaged in printing and publishing. Professional and business services advanced because of robust hiring in administrative and support services, including employment services. This is a sector that often adds temporary and part-time jobs when the economy emerges from a recession,

as employers hire temporary employees before filling full-time positions. Leisure and hospitality services account for one-tenth of Texas' total nonfarm employment but provided 18 percent of the state's job growth over the past year, with a gain of 49,900 jobs.

Mining and logging employment was propelled by the effects of firmer market prices and improved oil and natural gas exploration technology, especially the extensive application of horizontal drilling and fracturing techniques. The number of Texas operating oil and natural gas drilling rigs in Texas averaged 899 rigs in 2012, eclipsing the recent low of 329 rigs in June 2009. Mining and logging, predominantly comprised of oil and natural gas activity in Texas, added 8,900 jobs over the past year, a 3.6 percent rate of growth. In November 2012, the state's mining and logging industry job count stood at 257,500 jobs.

The broader oil and natural gas industry – mining, petrochemicals, petroleum refining, and oil/natural gas-related manufacturing – accounted for an estimated 16 percent of Texas' gross state product (GSP) in 2012. It serves as a buttress for the overall state economy when increasing oil and natural gas prices hinder the business and household consumers of those energy sources.

After losing employment for three years, shedding 124,000 jobs from the pre-recession employment peak to the subsequent trough, the Texas construction industry substantially recovered in 2012 to become the state's fastest-growing industry. Construction employment bottomed out in December 2011 and has gained 39,700 jobs since then. Although residential construction remained muted in 2012, the industry benefited from heavy and civil engineering construction projects, which accounted for nearly half of the new construction jobs and was the fastest growing industrial subsector, at 19 percent job growth, over the past year. According to McGraw-Hill Construction and the Comptroller's econometric model, Texas' total nonresidential building area (offices, fabrication facili-

ties and warehouses) put in place in 2012 increased by 5.6 percent over the amount built in 2011, to 83.2 million square feet.

A positive sign for Texas construction is that the total number of single-family and multi-family residential building permits – although remaining well behind historical trends – was up by 41 percent in 2012, increasing from 90,000 units in the previous twelve months to nearly 127,000 units in the twelve months ended in November 2012. According to Multiple Listing Service data from the Texas A&M Real Estate Center, the median sale price for an existing Texas single-family home rose 8.3 percent, from \$146,900 in November 2011 to \$159,100 in November 2012. Without Texas' construction job growth in 2012, the national construction industry would have seen another year of job declines, as the national increase of 14,000 jobs was far less than Texas' gain of 37,400 jobs (a solid 6.7 percent growth rate). Total Texas construction employment was 594,400 in November 2012.

The value of Texas exports set a new record in 2012, increasing by 5.9 percent to reach \$266 billion, according to the World Institute for Strategic Economic Research (WISER) and Comptroller estimates for the last quarter. Texas is the nation's leading exporting state, as it has been since 2002, and exports represent more than 19 percent of the state's GSP. The value of Texas exports, which are predominately to non-European countries, has grown more quickly than the nation's, so that Texas exports now account for 17 percent of the total U.S. value.

With Texas economic activity swelled by the demand for the products and services of the energy industry, the economic value of Texas manufacturing increased in 2012 to an estimated \$201 billion, from \$192 billion in 2011. Productivity improvements and employment growth contributed to this increase. Durable goods manufacturing employment grew by 7,000 jobs (1.3 percent), but weakness still grips the nondu-

rable goods sectors that are affected by outsourcing and technological changes, with ongoing erosion in printing, paper and food processing employment. Nondurable manufacturing sectors lost 4,400 jobs (down 1.5 percent) during the year. Manufacturing employment was 847,000 in November 2012.

Texas' service-providing industries, which account for more than 84 percent of the state's total nonfarm employment, had job growth of 2.6 percent from November 2011 to November 2012, following increases of 1.1 and 1.9 percent in 2010 and 2011. Services again underperformed the goods-producing industries in the rate of job growth, but still accounted for 82 percent of the jobs added during the year.

Employment expanded in the trade, transportation and utilities industry by 69,600 jobs; leisure and hospitality services by 49,900 jobs; education and health services by 45,700 jobs; and professional and business services by 37,400 jobs. Government gained 12,400 jobs and financial activities tacked on 9,300 jobs. With the delayed recovery of personal income growth, consumers have been wringing more years out of goods before replacing them, benefiting the repair sector, leading to job growth in other services of 9,000 jobs. Information, the smallest service-providing industry in Texas, has not added jobs in any year since the "dot.com" bust in 2000, losing another 3,400 jobs over the past year.

Texas consumer expenditures, based on sales tax collections in calendar year 2012, experienced solid growth, even in light of the nation's general economic uncertainty. The growth in sales tax receipts reached a six-year high in calendar 2012, up 12 percent, with much of the growth rooted in business spending related to oil and natural gas exploration. With more robust automobile and light truck sales, motor vehicle sales tax collections soared by a 19 percent increase during the calendar year. Texas consumer spending should continue expanding in 2013 and 2014.

Financial Policies

Fiscal soundness is an unwavering principle that guides the financial policies of the state. The Texas Constitution supports responsible governance by mandating several limitations on the budgeting process. In addition to the certification process requiring passage of a balanced budget in Article III, Section 49a, budget growth and indebtedness are also limited. According to Article VIII, Section 22, appropriations from state tax revenue not dedicated by the Texas Constitution cannot grow faster than state economic growth estimated by the Legislative Budget Board. Payments required for debt cannot exceed 5 percent of the previous three-year average of non-dedicated general revenue as provided in Article III, Section 49j.

The Economic Stabilization Fund (ESF), authorized in 1988 by the Texas Constitution, Article III, Section 49g, is yet another example of prudent governance. The Comptroller may transfer ESF amounts to the general revenue fund to prevent or eliminate temporary cash deficiencies. Any amounts transferred to general revenue shall be returned to the ESF as soon as practicable, but no later than Aug. 31 of each odd-numbered year. The Legislature may appropriate, by a three-fifths vote of the members present in each house, amounts in the ESF for spending that does not exceed the amount of any unanticipated deficit or revenue decline during a biennium. The Legislature may also appropriate any amount from the ESF for any purpose only if approved by at least two-thirds of the members present in each house. The ESF shall receive a transfer, not later than the 90th day of each biennium, from the general revenue fund for one-half of any unencumbered positive balance remaining in the general revenue fund on the last day of the preceding biennium. The ESF also receives transfers, not later than the 90th day of each fiscal year, from the general revenue fund for 75 percent of the prior fiscal year oil or natural gas production tax revenue that exceeds the amount of these collections in fiscal 1987. The balance in the fund

on Aug. 31, 2012 was \$6.1 billion. The ESF is also discussed in Note 13.

Major Initiatives

In recent years, Texas' budget-writing process has focused largely on short-term measures needed to close each successive budget gap. In recognition of this pattern, the Comptroller's office has inaugurated a series of programs designed to provide state policymakers with the information they need for effective, long-term financial planning.

Financial Allocation Study for Texas

For the 2012-13 biennium, the Texas Legislature appropriated about 42 percent of the state's non-dedicated general revenue for public education. Total spending by Texas school districts rose by nearly 64 percent from the 2000-01 through 2010-11 school years. Over the same period, enrollment rose by just 21 percent, roughly a third as fast as spending.

In response to a legislative directive to "identify school districts and campuses that use resource allocation practices that contribute to high academic achievement and cost-effective operations," the Comptroller's office created the Financial Allocation Study for Texas (FAST) to examine district and campus resource allocation – and the relationship between these allocations and student achievement. FAST allows school districts to identify ways to operate more efficiently without sacrificing student academic performance.

The FAST project was developed with the assistance of researchers at some of the state's top higher education institutions, Texas school superintendents, national experts and other stakeholders such as Texas school board members, professional education associations, education policy groups and business leaders. FAST ratings are provided to Texas school districts and campuses to identify those responsible for strong academic growth and cost-effective operations.

An accompanying web-based tool (www.fastexas.org) allows users to compare school districts and campuses on a multitude of academic and financial indicators. This first-of-its-kind tool is available to users free of charge.

The third annual edition of FAST, issued in 2012, gave 45 charter and school districts the highest rating of five stars. Of the 45 five-star districts, 27 held that rank in 2011 and 15 did so for three consecutive years.

The Cost of Federal Regulation

Excessive and poorly considered federal regulations can have a serious impact on Texas' economic health. The Comptroller's office has issued several recent reports addressing regulatory costs on our state.

In April 2012, the *Texas Business Attitudes Toward Federal Health Care Reform* report documented considerable opposition to federal health care reform among Texas businesses. Only 3.4 percent of the employers surveyed for the study believed the legislation will be good for their businesses.

Another area prone to federal regulatory overreach is environmental protection. More than 100 species found in Texas have received or are slated for federal endangered species review within the next five years, with potential consequences that could involve significant economic impacts on the state's landowners, businesses and communities.

To help policymakers stay abreast of rapidly evolving environmental regulation, in September 2011 the Comptroller's office debuted Keeping Texas First (www.keepingtexasfirst.com), a website that tracks proposed endangered species listings as well as air and water regulation, explains the federal rule-making process and provides detailed case studies outlining the financial impact of such regulation on the state economy.

One species found in the Permian Basin, for instance, was proposed for listing as an endangered species despite a lack of scientific data – in a region that provides 14 percent of the nation's oil and tens

of thousands of Texas jobs. The Comptroller's October 2012 *Endangered Economy: A Case Study of the Dunes Sagebrush Lizard and the West Texas Oil and Gas Industry* report discusses this case, which was resolved via a community-led, market-based program of voluntary conservation steps, without the severe land-use restrictions that follow listing under the Endangered Species Act.

The Comptroller spearheaded that effort as part of her role as the presiding officer of the state's Interagency Task Force on Economic Growth and Endangered Species. In January 2013, the task force released a report, *Update 2013: Task Force Activities in Response to Endangered Species Act Costs and Challenges*, detailing its work to head off onerous federal regulation while preserving the state's natural resources.

Tracking the Texas Economy

In February 2012, the Comptroller's office launched The Texas Economy website (www.thetexasconomy.org) – a comprehensive guide to the Texas economy and the industries, people and other factors that drive it – to help policymakers, businesses and taxpayers understand the complex forces shaping Texas. The regularly updated site provides a wide variety of data and analysis in an easy-to-understand and useful format, including information on:

- Key economic indicators
- Government revenue and spending
- Demographics
- Major industries
- Workforce trends
- Public education
- Career training
- Health care

The Texas Economy site also spotlights in-depth Comptroller research reports examining issues directly affecting state finances, such as reports on local government spending and bond debt.

Transparency

The Comptroller's office promotes openness in state and local governments and financial transparency at all levels. The agency's Texas Transparency website (www.texas Transparency.org) incorporates an Open Data Center that offers public access to machine-readable, platform-independent datasets on statewide contracts and bidders' lists, crude oil and natural gas industry data, tax receipts and more. A Texas EDGE Data Center provides data of interest to economic development officials, including population, employment, income, poverty, property values, sales activity and education information. Another feature, Where the Money Goes, allows the public to search the state check register and track state agency spending in detail.

A new feature added in November 2011, the Monthly State Revenue Watch (www.window.state.tx.us/finances/revenueWatch), presents detail on net state revenue collections by month of collection and type of revenue source, and allows its users to make side-by-side comparisons to prior year collections and the Comptroller's revenue estimate.

The Comptroller also encourages Texas local governments to open their books to the public by posting their budgets, annual financial reports and check registers online. Texas Transparency displays the progress local governments are making toward this goal, and gives users direct access to local government websites and their key financial documents.

As of Jan. 8, 2013, the Texas Transparency website listed all 254 Texas counties, 470 cities, 1,033 school districts and 32 special districts (including municipal utility districts, water districts, river authorities, toll road authorities and transit districts). More than 80 percent of these are posting at least one of the three recommended documents, giving taxpayers access to the data they need to see how their tax dollars are being spent. In calendar 2012, a total of 320 of these local governments earned the Comptroller's Leadership

Circle award for financial transparency, including 265 at the Gold level, 49 at the Silver level and six at the Bronze level.

Spotlighting Government Spending and Debt

Another major project springing from the Comptroller's transparency initiative is the *Texas, It's Your Money* series of reports released from August through December 2012. This series is intended to give Texans the tools they need to understand and hold accountable those responsible for government spending and debt. It also makes recommendations to improve the transparency of government finances and helps taxpayers exercise their fundamental right to control them.

The report series examines:

- The various local entities that add to Texans' tax bills – including cities, counties, special-purpose districts and transit authorities – and identifies trends in local taxation, including the proliferation of special taxing districts
- Trends in the issuance of bond debt, which local governments use for purposes such as hospital construction, water infrastructure and vehicle and technology purchases
- Bond indebtedness of public schools and higher education institutions, which supports the construction or renovation of educational facilities
- Public pension obligations in Texas

The *Texas, It's Your Money* series was accompanied by a suite of Web tools that will help Texans keep a closer eye on government finances, including interactive maps that provide a close-up view of the entities that assess property tax, collect sales tax revenues and issue public debt in each Texas county.

Protecting Texans' Health

Texas has been hard-hit by the national obesity epidemic, and this vital health issue is an economic risk

as well, costing Texas businesses \$9.5 billion annually. The 82nd Legislature asked the Comptroller to build a comprehensive collection of resources and information to help Texans address this problem.

In response to this charge, the Comptroller's office launched an online platform, Reshaping Texas (www.ReshapingTexas.org), in December 2012, to offer news and information about the obesity epidemic. Key topic areas include costs, Texas initiatives, success stories, research and maps. The site's features also include:

- Fitnessgram – aggregates fitness data collected by the Texas Education Agency to create geographic information system (GIS) maps showing where in Texas students are most at risk for obesity. These maps will help identify obesity “hot spots” in need of targeted interventions.
- Grants database – a regularly updated pool of funding opportunities for local nonprofits, schools and other organizations seeking resources to help fight obesity.
- Involvement information – step-by-step guidelines on how to get involved in the fight against obesity at the local level, including how to work with PTAs and School Health Advisory Councils.

Users are encouraged to share success stories and submit other relevant content.

Property Tax Value Limitations

In 2001, the 77th Legislature enacted House Bill 1200, creating the Texas Economic Development Act (Act). The Act allows school districts to attract new taxable property and assist in new job creation by offering a tax credit and an eight-year limitation on the appraised value of real and personal tangible property for the maintenance and operations portion of a school district's tax rate. In exchange for the appraised value limitation and tax credit, a property owner is required

to enter into an agreement with the school district to create a specific number of high-wage jobs and build or install specified types of real and personal property worth a certain amount.

To qualify, the property must be in a reinvestment zone and must be devoted to manufacturing, research and development, renewable energy generation, nuclear power generation, advanced clean energy projects or electric power generation using integrated gasification combined cycle technology. The amount of investment and the minimum amount of the value limitation varies according to whether the school district is considered a rural or non-rural district and according to the amount of taxable property value in the school district.

As of August 2012, a total of 84 school districts were parties to 128 value limitation agreements, with the bulk of projects involving manufacturing facilities and wind farms.

Awards and Acknowledgments

Certificate of Achievement

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the state of Texas for its Comprehensive Annual Financial Report for the fiscal year ended August 31, 2011. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The state of Texas has received a Certificate of Achievement for the last 22 years (fiscal years ended August 1990 through 2011). We believe our current report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

I will continue to maintain a highly qualified and professional staff to make this certification possible.

Acknowledgments

The preparation of this report requires the collective efforts of literally hundreds of financial personnel throughout state government, including the dedicated management and staff of the Comptroller's Financial Reporting section and Fiscal Management Division; the chief financial officers, chief accountants and staff at each agency; and the management and staff of the State Auditor's Office. I sincerely appreciate the dedicated efforts of all these individuals who continue to strive for improvements that will make Texas a national leader in quality financial reporting.

Sincerely,

A handwritten signature in black ink, reading "Susan Combs". The signature is fluid and cursive, with the first name "Susan" and last name "Combs" clearly distinguishable.

Susan Combs

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Christopher P. Moynell

President

Jeffrey R. Enen

Executive Director



State of Texas Comprehensive Annual Financial Report

State of Texas Elected State Officials

Executive Rick Perry
Governor

David Dewhurst
Lieutenant Governor

Susan Combs
Comptroller of Public Accounts

Greg Abbott
Attorney General

Jerry Patterson
Land Commissioner

Todd Staples
Commissioner of Agriculture

Christi Craddick
David J. Porter
Barry T. Smitherman
Railroad Commissioners

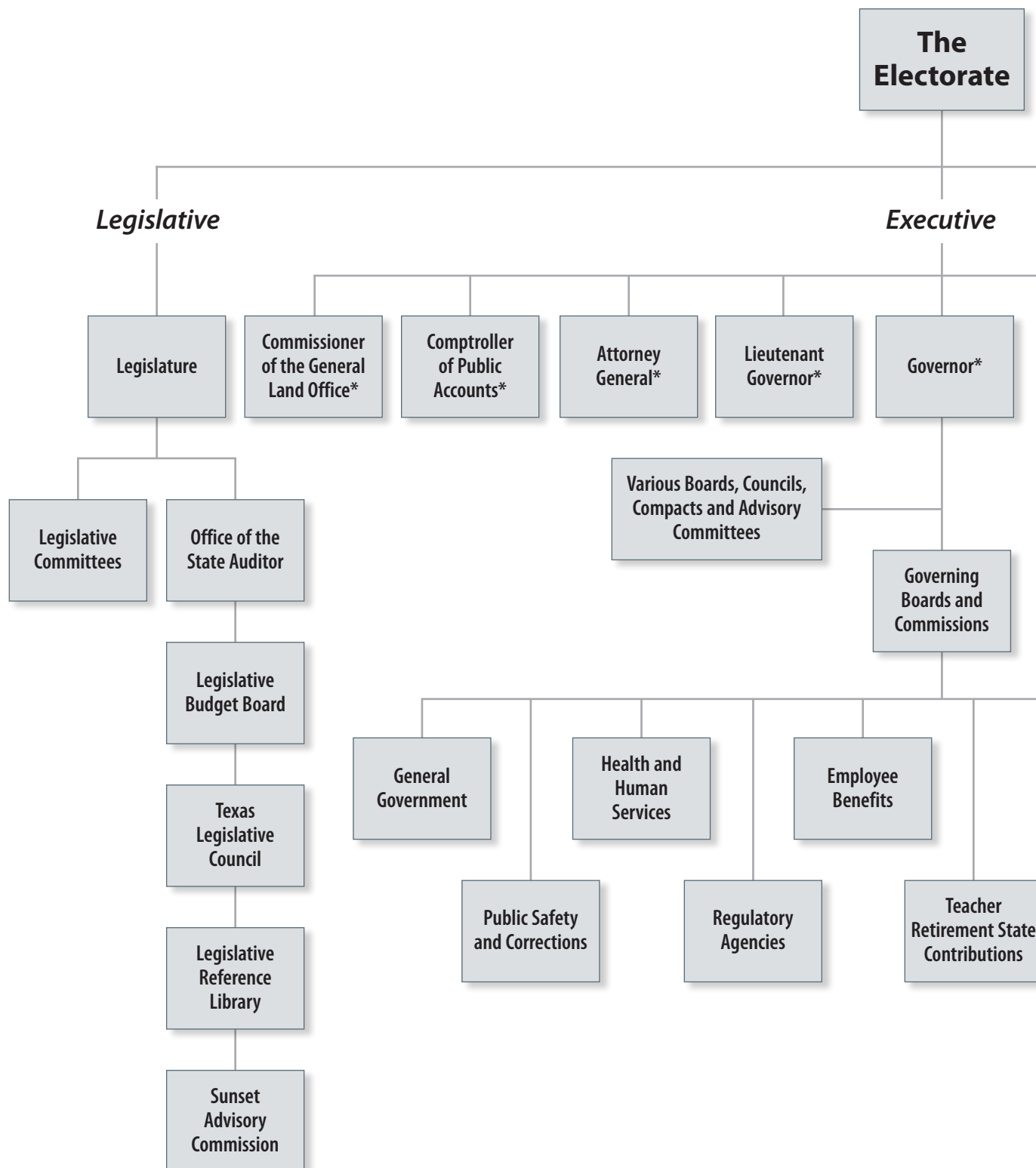
Legislative Lieutenant Governor David Dewhurst
President of the Senate

Joe Straus
Speaker of the House of Representatives

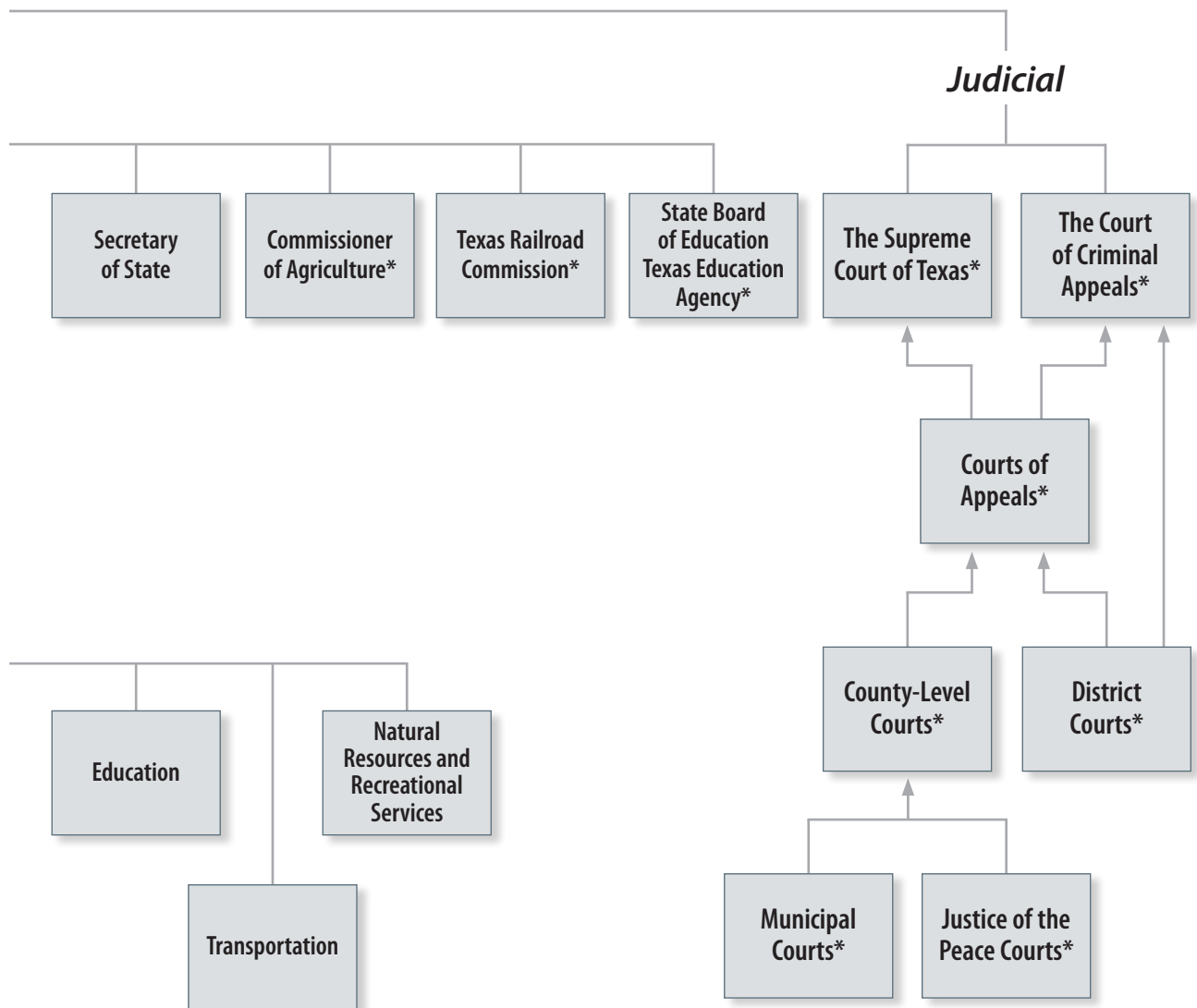
Judicial Wallace B. Jefferson
Chief Justice of the Supreme Court

Sharon Keller
Presiding Judge, Court of Criminal Appeals

Government Structure of Texas



* Elected Offices





Section Two

Financial Section



Independent Auditor's Report

The Honorable Rick Perry, Governor
The Honorable Susan Combs, Comptroller of Public Accounts
The Honorable David Dewhurst, Lieutenant Governor
The Honorable Joe Straus, Speaker of the House of Representatives
and
Members of the Legislature, State of Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas, as of and for the year ended August 31, 2012, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State Comptroller of Public Accounts. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the following entities and fund:

- The University of Texas System, which constitutes 70 percent of the assets of Colleges and Universities, a major enterprise fund. The University of Texas System also constitutes 54 percent of the assets of the business-type activities.
- The Texas Lottery Fund, a major enterprise fund, which constitutes 16 percent of the operating revenues of the business-type activities.
- The Texas Local Government Investment Pool (TexPool), a blended component unit, which constitutes 7 percent of the assets of the aggregate discretely presented component unit and remaining fund information, which primarily consists of fiduciary funds.

The financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these entities and TexPool, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of TexPool were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas, as of August 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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SAO Report No. 13-323

As discussed in Note 6, the State of Texas reported conduit bond debt for two component units as a liability in the financial statements and disclosed conduit bond debt for two other component units in Note 6 as allowed by the Governmental Accounting Standards Board.

In accordance with *Government Auditing Standards*, we will issue a separate report on our consideration of the State's internal control over financial reporting and on our tests of the State's compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule, the modified approach to reporting infrastructure assets, and the schedules of funding progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's financial statements. The other supplementary information - combining financial statements and schedules, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information - combining financial statements and schedules is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The introductory section and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.



John Keel, CPA
State Auditor

February 21, 2013



Section Two
(continued)

Management's Discussion and Analysis

Management's Discussion and Analysis

The following is a discussion and analysis of the state of Texas' financial performance for the fiscal year ended Aug. 31, 2012. Use this section in conjunction with the state's basic financial statements. Comparative data is available and presented for this 2012 report.

Highlights

Government-wide

Net Position

The assets of the state of Texas exceeded its liabilities by \$148.6 billion as of Aug. 31, 2012, an increase of \$9.2 billion or 6.6 percent from fiscal 2011. The majority of the increase is primarily due to an increase of \$3.6 billion in nonexpendable funds. The net position is comprised of \$73.2 billion in capital assets, net of related debt, \$61.3 billion in restricted, and \$14.1 billion in unrestricted.

Fund Level

Governmental Funds

As of Aug. 31, 2012, the state's governmental funds reported a combined ending fund balance of \$44.2 billion, an increase of \$2.1 billion or 5 percent from fiscal 2011, primarily due to an increase in tax revenues. The state reported a positive unassigned fund balance of \$583.6 million in fiscal 2012.

Proprietary Funds

The proprietary funds reported a net position of \$46.8 billion as of Aug. 31, 2012, an increase of \$4.7 billion or 11.1 percent from fiscal 2011, primarily due to an increase in the valuation of investments.

Long-Term Debt

The state's total bonds outstanding decreased by \$843.3 million or 2.2 percent during fiscal 2012, primarily due to a restatement for bonds determined to

be conduit debt. This amount represents the net difference between net issuances, payments and refundings of outstanding bond debt. During fiscal 2012, the state issued bonds totaling \$2.2 billion. More detailed information regarding the government-wide, fund level and long-term debt activities can be found in the debt administration section of this management's discussion and analysis (MD&A).

Overview of the Financial Statements

The focus of this report is on reporting for the state as a whole and on the major individual funds. The report presents a more comprehensive view of the state's financial activities and makes it easier to compare the performance of Texas state government to that of other governments.

The Financial Section of this annual report presents the state's financial position and activities in four parts:

- MD&A (this part)
- The basic financial statements
- Required supplementary information other than MD&A
- Other supplementary information presenting combining statements and schedules

The report also includes statistical and economic data.

The basic financial statements include government-wide financial statements, fund financial statements and notes to financial statements, which provide more detailed information to supplement the basic financial statements.

Reporting on the State as a Whole

The government-wide financial statements are designed to present an overall picture of the financial position of the state. These statements consist of the statement of net position and the statement of activities, which are prepared using the economic resources mea-

surement focus and the accrual basis of accounting. This means that all the current year's revenues and expenses are included, regardless of when cash is received or paid, producing a view of financial position similar to that presented by most private sector companies.

The statement of net position combines and consolidates the government's current financial resources with capital assets and long-term obligations. This statement includes all of the government's assets, deferred outflows, liabilities and deferred inflows.

Net position represents one measure of the state's financial health.

Other indicators of the state's financial health include the condition of its roads and highways (infrastructure) and economic trends affecting the state's future tax revenues.

The statement of activities focuses on both the gross and net cost of various activities (governmental, business-type and component units). These costs are paid by the state's general tax and other revenues. This statement summarizes the cost of providing (or the subsidy provided by) specific government services and includes all current year revenues and expenses.

The government-wide statement of net position and the statement of activities divide the state's activities into the following three types.

Governmental Activities

The state's basic services are reported here, including general government; education; employee benefits; teacher retirement state contributions; health and human services; public safety and corrections; transportation; natural resources and recreation; and regulatory services. Taxes, fees and federal grants finance most of these activities.

Business-Type Activities

Activities for which the state charges a fee to customers to pay most or all of the costs of certain services

it provides are reported as business-type activities. The state's institutions of higher education are included as business-type activities.

Component Units

Component units are legally separate organizations for which the state is either financially accountable or the nature and significance of their relationship with the state is such that exclusion would cause the state's financial statements to be misleading or incomplete. The state has 26 discretely presented component units. Financial information for these entities is presented separately in the supplemental statements and in the notes.

Reporting on the State's Most Significant Funds

Fund financial statements provide additional detail about the state's financial position and activities. Some information presented in the fund financial statements differs from the government-wide financial statements due to the perspective and basis of accounting used. Funds are presented on the fund-level statements as major or nonmajor based on criteria set by the Governmental Accounting Standards Board (GASB).

A fund is a separate accounting entity with a self-balancing set of accounts. The state uses funds to keep track of sources of funding and spending related to specific activities.

Governmental Funds

A majority of the state's activity is reported in governmental funds. Reporting of these funds focuses on the flow of money into and out of the funds and amounts remaining at fiscal year-end for future spending.

Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental fund financial statements

provide a detailed short-term view of the state's general governmental operations and the basic services it provides. This information helps determine the level of resources available for the state's programs. The reconciliations following the fund financial statements explain the differences between the governmental activities column reported on the government-wide statement of net position and the government-wide statement of activities, and the governmental funds reported on the fund financial statements. The general fund, state highway fund and permanent school fund are reported as major governmental funds.

Proprietary Funds

When the state charges customers for services it provides, these activities are generally reported in proprietary funds. Services provided to outside (non-governmental) customers are reported in enterprise funds, a component of proprietary funds, and are accounted for using the economic resources measurement focus and the accrual basis of accounting. These are the same business-type activities reported in the government-wide financial statements, but are reported here to provide information at the fund level.

The employees life, accident and health insurance benefits fund is reported as an internal service fund and provides services on a cost reimbursement basis to other agencies of the financial reporting entity.

Colleges and universities, the unemployment trust fund and the lottery fund are reported as major proprietary funds.

Reporting on the State's Fiduciary Responsibilities

The state is the trustee or fiduciary for six defined benefit plans and one defined contribution plan. It is also responsible for other assets that can be used only for trust beneficiaries. All state fiduciary activities are reported in separate statements of fiduciary net position

and changes in fiduciary net position. The activities are reported separately from other financial activities because the state cannot use the assets to finance its operations. The state's fiduciary responsibilities include ensuring that the assets reported in these funds are used for their intended purposes.

Financial Analysis of the State as a Whole

Net Position

Total assets of the state as of Aug. 31, 2012, were \$231.4 billion, an increase of \$19.5 billion or 9.2 percent. Total liabilities as of Aug. 31, 2012, were \$83.6 billion, an increase of \$10.5 billion or 14.3 percent. Net position was affected by a number of factors. Cash and cash equivalents increased by \$10.1 billion from fiscal 2011 and noncurrent investments increased by \$5.2 billion. Net capital assets increased by \$3.9 billion. The major components of this increase were additions to the state's highway system, and college and university building and building improvement projects. Current liabilities increased by \$9 billion, primarily due to the issuance of \$9.8 billion in tax and revenue anticipation notes in the latter part of fiscal 2012. There was an increase in net pension obligation of \$1.2 billion as well. The state's bonded indebtedness was \$37.9 billion, which included new issuances of \$2.2 billion in state bonds to finance new construction, housing, water conservation and other projects. Approximately \$2 billion in bonded debt was retired or refunded. Net position was \$148.6 billion as of Aug. 31, 2012, an increase of \$9.2 billion or 6.6 percent. Of the state's net position, \$73.2 billion was invested in capital assets, net of related debt, while \$61.3 billion was restricted by the Texas Constitution or other legal requirements and was not available to finance day-to-day operations of the state. Unrestricted net position was \$14.1 billion. The majority of the net position increase is primarily due to an increase of \$3.6 billion in nonexpendable funds.

Statement of Net Position

August 31, 2012 and 2011 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
ASSETS						
Assets Other Than Capital Assets	\$ 67,569,392	\$ 56,993,151	\$ 61,025,689	\$ 56,082,589	\$ 128,595,081	\$ 113,075,740
Capital Assets	78,448,782	75,667,494	24,343,466	23,189,842	102,792,248	98,857,336
Total Assets	<u>146,018,174</u>	<u>132,660,645</u>	<u>85,369,155</u>	<u>79,272,431</u>	<u>231,387,329</u>	<u>211,933,076</u>
DEFERRED OUTFLOWS			773,010	575,740	773,010	575,740
LIABILITIES						
Current Liabilities	24,369,928	15,466,022	9,950,778	9,869,570	34,320,706	25,335,592
Noncurrent Liabilities	19,876,070	19,941,936	29,386,652	27,844,373	49,262,722	47,786,309
Total Liabilities	<u>44,245,998</u>	<u>35,407,958</u>	<u>39,337,430</u>	<u>37,713,943</u>	<u>83,583,428</u>	<u>73,121,901</u>
NET POSITION						
Invested in Capital Assets, Net of Related Debt	63,458,493	61,917,432	9,712,946	9,242,552	73,171,439	71,159,984
Restricted	33,748,497	32,013,661	27,539,111	24,376,167	61,287,608	56,389,828
Unrestricted	4,565,186	3,321,594	9,552,678	8,515,509	14,117,864	11,837,103
Total Net Position	<u>\$ 101,772,176</u>	<u>\$ 97,252,687</u>	<u>\$ 46,804,735</u>	<u>\$ 42,134,228</u>	<u>\$ 148,576,911</u>	<u>\$ 139,386,915</u>

Changes in Net Position

The state's net position as of Aug. 31, 2012, increased by \$9.2 billion. The state earned program revenues of \$82.1 billion and general revenues of \$47.9 billion, for total revenues of \$130 billion, a decrease of \$1.6 billion or 1.2 percent from fiscal 2011. The major components of this decrease were operating grants and contributions, which had a decrease of \$6 billion, and capital grants and contributions, with a decrease of \$2.5 billion. Federal revenues decreased \$7.6 billion and interest and investment income decreased \$1.4 billion. These decreases offset \$4.7 billion gains in tax revenues.

The expenses of the state were \$120.5 billion, a decrease of \$4.1 billion or 3.3 percent. The expense

fluctuations in governmental activities are largely attributable to education and to health and human services. Education had a decrease of \$2.5 billion, primarily due to reduced distribution to local school districts. In business-type activities there was a \$938.1 million decrease in the health and human services function, primarily due to reduced unemployment benefit payments.

Further discussion of results for changes in the state's financial condition follows in the analysis of the state's funds. Operating and capital grants and contributions decreased while tax collections increased, mostly due to sales tax collections. Education expenses for local school districts and unemployment benefit payments also decreased.

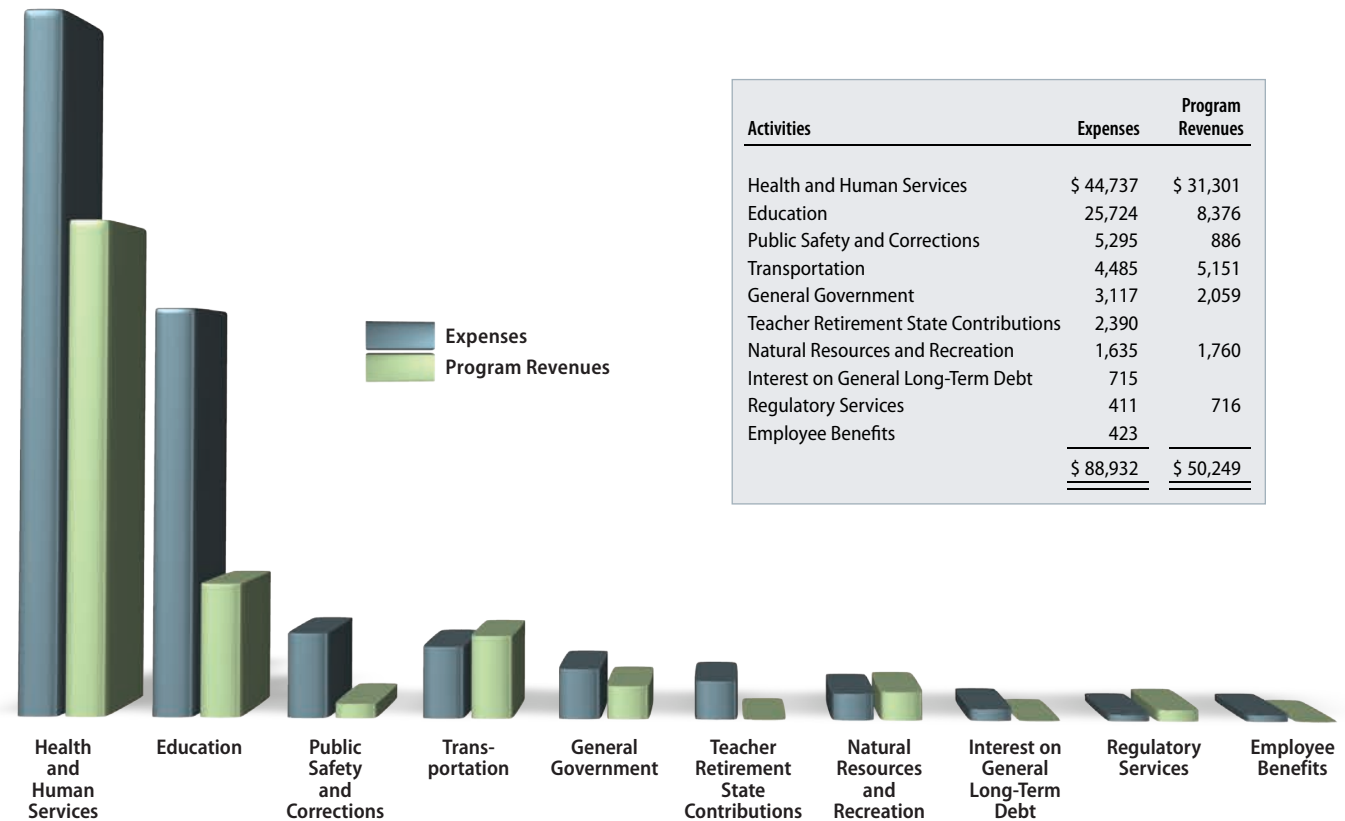
Changes in Net Position

For the Fiscal Years Ended August 31, 2012 and 2011 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
REVENUES						
Program Revenues:						
Charges for Services	\$ 7,405,088	\$ 7,337,119	\$ 19,037,312	\$ 17,682,518	\$ 26,442,400	\$ 25,019,637
Operating Grants and Contributions	42,796,231	47,220,463	12,542,912	14,103,243	55,339,143	61,323,706
Capital Grants and Contributions	47,578	2,538,949	259,750	281,741	307,328	2,820,690
Total Program Revenues	<u>50,248,897</u>	<u>57,096,531</u>	<u>31,839,974</u>	<u>32,067,502</u>	<u>82,088,871</u>	<u>89,164,033</u>
General Revenues:						
Taxes	44,338,553	39,661,587			44,338,553	39,661,587
Unrestricted Investment Earnings	645,813	334,621	133,680	86,295	779,493	420,916
Settlement of Claims	620,898	584,305	378	1,215	621,276	585,520
Gain on Sale of Capital Assets	7,163	99	543	1	7,706	100
Other General Revenues	1,880,352	1,533,427	248,725	222,640	2,129,077	1,756,067
Total General Revenues	<u>47,492,779</u>	<u>42,114,039</u>	<u>383,326</u>	<u>310,151</u>	<u>47,876,105</u>	<u>42,424,190</u>
Total Revenues	<u>97,741,676</u>	<u>99,210,570</u>	<u>32,223,300</u>	<u>32,377,653</u>	<u>129,964,976</u>	<u>131,588,223</u>
EXPENSES						
General Government	3,116,737	4,037,805	149,663	150,406	3,266,400	4,188,211
Education	25,724,127	28,643,283	22,667,292	22,226,690	48,391,419	50,869,973
Employee Benefits	423,492	324,477			423,492	324,477
Teacher Retirement State Contributions	2,390,178	2,262,638			2,390,178	2,262,638
Health and Human Services	44,737,457	44,875,285	5,117,829	6,055,958	49,855,286	50,931,243
Public Safety and Corrections	5,294,730	5,539,155	91,313	86,262	5,386,043	5,625,417
Transportation	4,484,662	4,377,794	215,845	209,880	4,700,507	4,587,674
Natural Resources and Recreation	1,634,659	1,474,675	346,150	423,140	1,980,809	1,897,815
Regulatory Services	410,724	408,115			410,724	408,115
Interest on General Long-Term Debt	715,148	797,030			715,148	797,030
Lottery			3,027,943	2,783,798	3,027,943	2,783,798
Total Expenses	<u>88,931,914</u>	<u>92,740,257</u>	<u>31,616,035</u>	<u>31,936,134</u>	<u>120,547,949</u>	<u>124,676,391</u>
Excess Before Contributions, Special Items and Transfers	<u>8,809,762</u>	<u>6,470,313</u>	<u>607,265</u>	<u>441,519</u>	<u>9,417,027</u>	<u>6,911,832</u>
Capital Contributions	930	108,119		3,045	930	111,164
Contributions to Permanent and Term Endowments			136,800	126,971	136,800	126,971
Transfers	(3,944,781)	(4,179,888)	3,944,781	4,179,888		
Change in Net Position	<u>4,865,911</u>	<u>2,398,544</u>	<u>4,688,846</u>	<u>4,751,423</u>	<u>9,554,757</u>	<u>7,149,967</u>
Net Position, Beginning Balance	97,252,687	94,905,088	42,134,228	37,371,790	139,386,915	132,276,878
Restatements	(346,422)	(50,945)	(18,339)	11,015	(364,761)	(39,930)
Net Position, Beginning Balance, as Restated	<u>96,906,265</u>	<u>94,854,143</u>	<u>42,115,889</u>	<u>37,382,805</u>	<u>139,022,154</u>	<u>132,236,948</u>
Net Position, Ending Balance	<u>\$ 101,772,176</u>	<u>\$ 97,252,687</u>	<u>\$ 46,804,735</u>	<u>\$ 42,134,228</u>	<u>\$ 148,576,911</u>	<u>\$ 139,386,915</u>

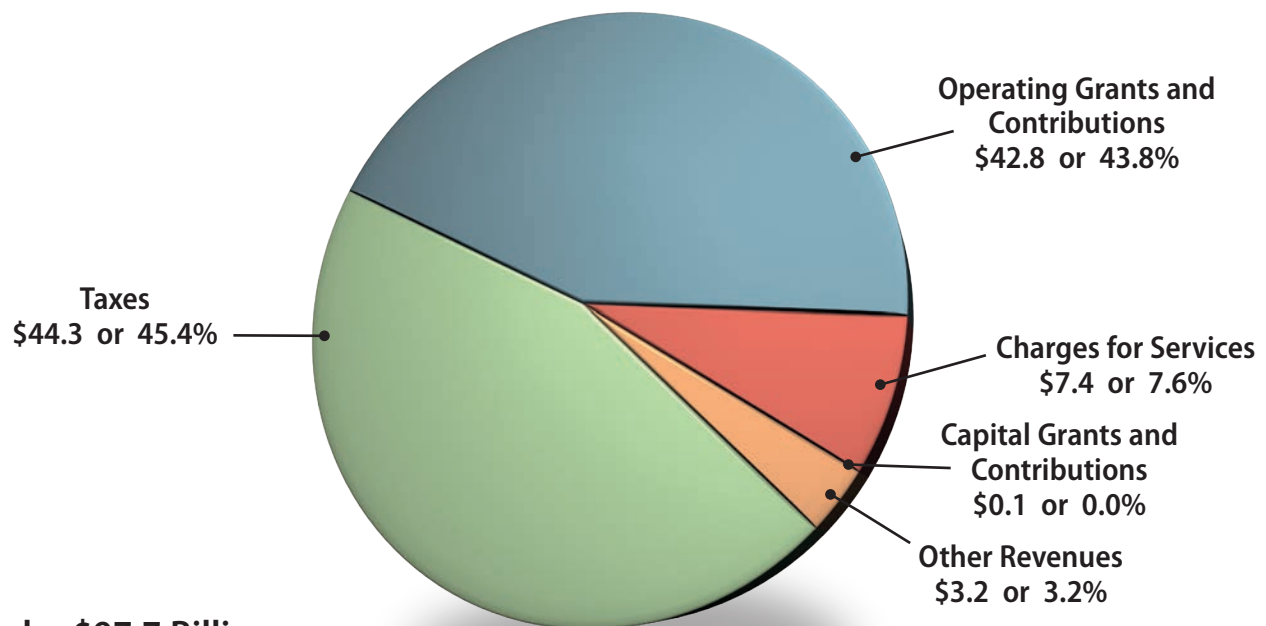
Expenses and Program Revenues: Governmental Activities

For the Fiscal Year Ended August 31, 2012 (In Millions)



Revenue by Source: Governmental Activities

For the Fiscal Year Ended August 31, 2012 (In Billions)*

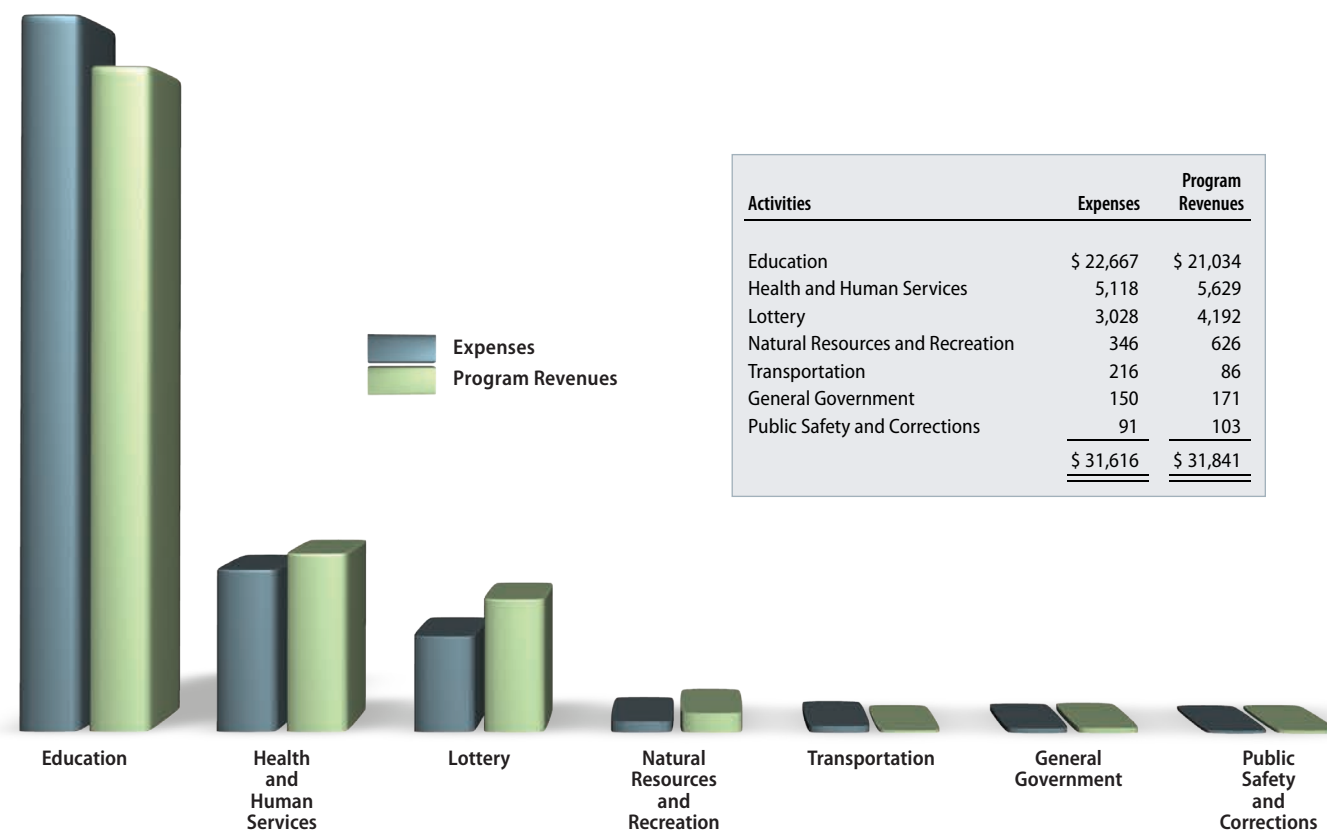


Total = \$97.7 Billion

* Totals may not add due to rounding

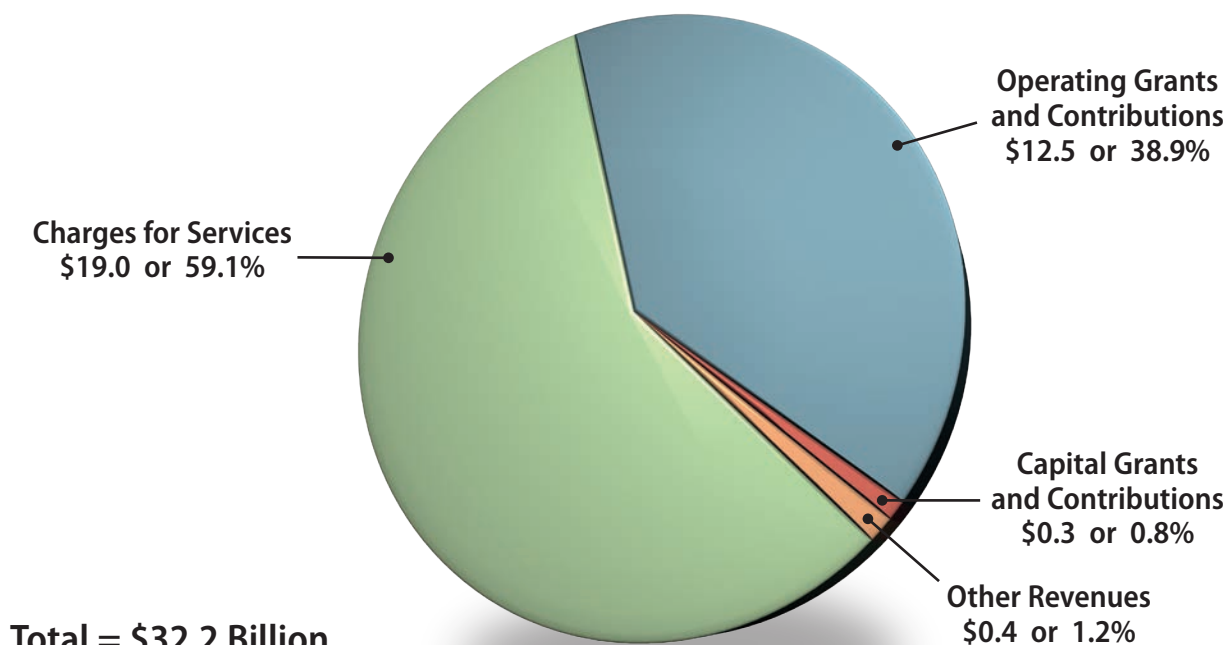
Expenses and Program Revenues: Business-Type Activities

For the Fiscal Year Ended August 31, 2012 (In Millions)



Revenue by Source: Business-Type Activities

For the Fiscal Year Ended August 31, 2012 (In Billions)*



* Totals may not add due to rounding

Governmental Activities

Governmental activities program revenue was \$50.2 billion, including charges for services of \$7.4 billion, operating grants and contributions of \$42.8 billion and capital grants and contributions of \$47.6 million. The largest change, a \$4.4 billion decrease, was for operating grants and contributions, which includes revenues from federal funds and interest and investment income. However, taxes had increases of \$4.7 billion from general revenue sources, with the largest increase in sales tax revenue.

Net Cost (Income) of the State's Governmental Activities

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	\$ 3,116,737	\$ 1,058,097
Education	25,724,127	17,347,912
Employee Benefits	423,492	423,358
Teacher Retirement State Contributions	2,390,178	2,390,178
Health and Human Services	44,737,457	13,436,627
Public Safety and Corrections	5,294,730	4,408,721
Transportation	4,484,662	(666,821)
Natural Resources and Recreation	1,634,659	(125,210)
Regulatory Services	410,724	(304,993)
Interest on General Long-Term Debt	715,148	715,148
Total	<u>\$88,931,914</u>	<u>\$38,683,017</u>

Net Cost (Income) of the State's Business-Type Activities

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	\$ 149,663	\$ (21,489)
Education	22,667,292	1,633,397
Health and Human Services	5,117,829	(511,380)
Public Safety and Corrections	91,313	(11,280)
Transportation	215,845	130,011
Natural Resources and Recreation	346,150	(279,547)
Lottery	3,027,943	(1,163,651)
Total	<u>\$31,616,035</u>	<u>\$ (223,939)</u>

Governmental activities expenses were \$88.9 billion. All functions of governmental activities in the government-wide statement of activities have a net cost, except the transportation, natural resources and recreation, and regulatory services functions, which report slight surpluses. The education function and the health and human services function account for 79.2 percent of governmental activities expenses and 79.6 percent of the net cost. The tax collections of the state provide the primary source of funding, which when added to program revenues, support payment for governmental services.

Business-Type Activities

Business-type activities generated program revenue of \$31.8 billion, including charges for services of \$19 billion, operating grants and contributions of \$12.5 billion and capital grants and contributions of \$259.8 million. The total expenses for business-type activities were \$31.6 billion. The largest changes occurred in education, with a \$440.8 million increase for colleges and universities, and in the health and human services function, where there was a decrease of \$938.1 million in unemployment benefit payments as the unemployment rate dropped to 7.3 percent. There was a total gain from the government's business-type activities of \$4.7 billion in comparison to the prior year's gain of \$4.8 billion.

Financial Analysis of the State's Funds

Governmental Funds

As of Aug. 31, 2012, governmental funds reported fund balances of \$44.2 billion. The general fund reported a positive \$8.9 billion fund balance.

General Fund

The fund balance for the general fund as of Aug. 31, 2012, was \$8.9 billion, an increase of \$1.7 billion from fiscal 2011, mostly due to an increase in tax rev-

enues. The Texas Constitution, state statute, and federal rule or bond covenants constrains \$7.1 billion. The unassigned fund balance was \$1.1 billion. Contributing to the higher balance were decreases of \$2.4 billion in spending for education and decreases of \$6.5 billion in federal revenues. Decreases in supplemental nutrition assistance programs (SNAP), child nutrition programs and Medicare programs accounted for \$2.8 billion of the federal revenue decrease.

State Highway Fund

The fund balance for the state highway fund as of Aug. 31, 2012, was \$852.9 million, an increase of \$101.4 million from \$751.5 million as of Aug. 31, 2011. Cash and cash equivalents decreased \$514.7 million as highway reconstruction and maintenance costs increased by \$154.6 million.

Permanent School Fund

The fund balance for the permanent school fund (PSF) as of Aug. 31, 2012, totaled \$28.8 billion, an increase of \$1.9 billion since Aug. 31, 2011. This increase was primarily attributable to an increase in valuation of investments of \$1.7 billion. Value in the fund provided \$1 billion in transfers to provide funding for public education. The PSF also supports the state's public school system through a bond guarantee program, where the PSF is pledged to guarantee bonds issued by Texas school districts, enhancing their credit rating. As of Aug. 31, 2012, a total of \$53.6 billion in school district bond issues were guaranteed.

Proprietary Funds

Proprietary funds reported a net position of \$46.8 billion as of Aug. 31, 2012, an increase of \$4.7 billion from fiscal 2011. The state's public colleges and universities hold 91.1 percent of the reported net position in proprietary funds.

Colleges and Universities

Colleges and universities' net position as of Aug. 31, 2012, totaled \$42.6 billion, an increase of \$3.5 billion from Aug. 31, 2011. There were increases of \$637.4 million and \$470.9 million for both operating revenues and operating expenses, respectively, with an overall increase of \$166.4 million in operating income. There was \$4.5 billion in nonoperating investment and interest income in fiscal 2012, accounting for most of the \$4.8 billion in total nonoperating revenues over expenses. Stable market conditions produced positive investment returns. The permanent university fund increased net position by \$782.4 million. Mineral income from the fund's land possessions increased to \$954.5 million. This endowment fund contributes to the support of 24 institutions in the University of Texas System and the Texas A&M University System.

Unemployment Trust Fund

The unemployment trust fund reports activity related to the administration of statewide unemployment benefits in proprietary funds. The funds reported a net position of \$29.3 million as of Aug. 31, 2012, an increase of \$842.2 million from \$(812.9) million as of Aug. 31, 2011. During fiscal 2012, unemployment taxes collected increased \$218.7 million from \$2.7 billion in 2011 while federal revenues decreased \$734.6 million from \$3.5 billion in 2011. Benefit payments decreased \$949.9 million as the unemployment rate dropped to 7.3 percent from 8.2 percent in 2011.

Lottery Fund

The Texas Lottery Commission operates on-line and instant ticket lottery games to generate revenue for the state's foundation school fund. The lottery fund had a net position of \$149.1 million as of Aug. 31, 2012, compared to \$118 million at the end of fiscal 2011. Lottery sales for the year ended Aug. 31, 2012, totaled \$4.2 billion, an increase of \$379.6 million from fiscal

2011. Distributions to state agencies totaled \$1.1 billion for fiscal 2012 compared to \$970.5 million for 2011, an increase of 13.8 percent.

The lottery fund's short-term and long-term investments approximated \$1.1 billion. The lottery fund's liabilities include amounts owed to the state's foundation school fund for August accrued sales for fiscal 2012, and for investment purchases, vendor payables and prize payment obligations.

Fiduciary Funds

Fiduciary funds reported \$151.6 billion in net position as of Aug. 31, 2012, an increase of \$4.2 billion from \$147.4 billion in fiscal 2011, a 2.9 percent increase.

Pension and Other Employee Benefit Trust Funds

Total net position for pension and other employee benefit trust funds was \$135.1 billion, an increase of \$4.5 billion from the \$130.6 billion reported in fiscal 2011. The majority of plan assets are held as investments for the pension funds. Additions from all sources decreased \$8.1 billion from fiscal 2011, while benefit payments increased \$870.2 million. Decreases in additions are due primarily to less favorable conditions in the financial markets and legislative decreases to state contributions. The return for investments for the state's two largest pension systems, the Teacher Retirement System of Texas and the Employees Retirement System of Texas, was 7.6 percent and 8.2 percent, respectively, compared to the previous year's returns of 15.5 and 12.6 percent, respectively.

External Investment Trust Fund

The Treasury Safekeeping Trust Company (Trust Company) is the only external investment trust fund. It administers and invests funds belonging to state and local entities as well as provides direct access to services of the Federal Reserve System. The Trust reported a

total net position of \$13.5 billion as of Aug. 31, 2012, a decrease of \$421.2 million from fiscal 2011. The decrease in net position is due to withdrawals by local government entities, leaving a lower base from which to invest.

Private-Purpose Trust Funds

Total net position for private-purpose trust funds was \$2.9 billion as of Aug. 31, 2012, an increase of \$82.2 million from fiscal 2011. Additions from all sources of \$525.9 million exceeded total deductions of \$443.6 million.

Budgetary Highlights

Variances for the General Fund

The differences from original and final revenue budgets are due to both economic and legislative reasons.

Budget mechanisms allow budget revisions for certain revenues when collections exceed the original budget. Accordingly, major revisions were made to both total revenues and expenditures for a net change of \$2.7 billion.

There was a positive \$139.8 million variance between the actual to final budget revenues. The most positive revenue variance occurred for tax revenues, which reported a \$2.8 billion difference with actual exceeding final budget. The positive tax revenues variance was offset by a negative revenue variance occurring with federal revenues and sales of goods and services, where actual was below final budget.

The largest negative expenditure variances related to the education function and the health and human services function.

Capital Assets – Net of Depreciation and Amortization

August 31, 2012 and 2011 (Amounts In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Land and Land Improvements	\$ 9,519,723	\$ 8,915,039	\$ 1,570,622	\$ 1,524,203	\$ 11,090,345	\$ 10,439,242
Infrastructure	59,314,678	58,354,931	2,539,629	2,416,197	61,854,307	60,771,128
Construction in Progress	6,178,225	5,033,330	2,128,658	2,635,344	8,306,883	7,668,674
Buildings and Building Improvements	2,380,577	2,327,370	14,296,422	12,939,434	16,676,999	15,266,804
Facilities and Other Improvements	70,273	70,075	892,674	822,863	962,947	892,938
Furniture and Equipment	251,025	242,873	1,509,776	1,435,699	1,760,801	1,678,572
Vehicles, Boats and Aircraft	429,389	418,239	75,279	65,513	504,668	483,752
Other Capital Assets	172,644	174,310	931,091	941,698	1,103,735	1,116,008
Intangible Capital Assets, Net	132,248	131,327	399,315	408,891	531,563	540,218
Total Capital Assets	<u>\$78,448,782</u>	<u>\$75,667,494</u>	<u>\$24,343,466</u>	<u>\$23,189,842</u>	<u>\$102,792,248</u>	<u>\$98,857,336</u>

Capital Assets and Debt Administration

Capital Assets

As of Aug. 31, 2012, the state had \$102.8 billion in net capital assets. This total represents a net increase of \$3.9 billion in total capital assets or 4 percent from fiscal 2011. Included in this amount are additions to the state's highway system of \$1.1 billion by the Texas Department of Transportation (TxDOT). Institutions of higher education also added \$1.3 billion to buildings and building improvements.

To ensure future availability of essential services and to finance highway capital improvements, TxDOT made commitments for construction contracts, comprehensive development agreements and pass-through toll agreements totaling an estimated \$14.4 billion. These commitments extend beyond the end of the fiscal year and represent future costs to the state. This amount is not recognized as a liability because the terms of the contracts or agreements were not met and benefits were not received as of the end of fiscal 2012.

Note 2 provides detail about the state's capital assets and Note 15 details the state's significant commitments related to future capital expenditures.

Infrastructure Assets

The value of the state's infrastructure assets is included in the governmental activities column of the government-wide statement of net position.

The state accounts for its system of roads and highways using the modified approach. TxDOT developed a system of management, the Texas Maintenance Assessment Program (TxMAP), designed to maintain the service delivery potential of the state's roads and highways to near perpetuity.

The state's policy is to maintain its interstate highways at a condition level of 80 percent, its non-interstate highways (farm-to-market and other road systems) at a condition level of 75 percent and its Central Texas Turnpike System at a condition level of 80 percent. The condition assessment results for fiscal 2012 reflect condition levels of 82 percent (83 percent in fiscal 2011) for the interstate system, 77.7 percent (78.5 percent for fiscal 2011) for the non-interstate system and 86.2 percent (89.9 percent for fiscal 2011) for the Central Texas Turnpike System.

In fiscal 2012, the estimated maintenance expenditures required to maintain the highway system at or above the adopted condition levels for interstate highways were \$191.4 million, \$2.2 billion for the non-interstate system and \$10 million for the Central Texas

Turnpike System. Actual expenditures were \$346.3 million for the interstate system, \$1.6 billion for the non-interstate system and \$10.6 million for the Central Texas Turnpike System. Additional information on the state's road and highway infrastructure is presented in the financial section's required supplementary information other than MD&A.

Debt Administration

The state of Texas issues both general obligation bonds and revenue bonds. Each series of revenue bonds is backed by the pledged revenue source and restricted funds specified in the bond resolution. Most revenue bonds are designed to be self-supporting from a primary revenue source related to the program financed.

The state's general obligation bond issues were rated Aaa by Moody's Investors Service, AA+ by Standard & Poor's and AAA by Fitch Ratings as of August 2012. During fiscal 2012, Texas state agencies and institutions of higher education issued \$2.2 billion in state bonds to finance new construction, transportation, housing, water conservation and treatment, and other projects. General obligation debt accounted for \$603 million of state bonds issued in fiscal 2012. This debt, which can only be authorized by a constitutional amendment, carries the full faith and credit of the state. The remaining \$1.6 billion is due to new issuances of revenue bonds, which are serviced by the revenue flows of individual entity projects. Bonds retired during the year were composed of \$448.1 million in general obligation bonds and \$808.3 million in revenue bonds. Also, \$86.7 million in general obligation bonds and \$702.8 million in revenue bonds were refunded. The total outstanding general obligation debt of the state after new issuances, retirements and refundings as of Aug. 31, 2012, was \$14.5 billion. This represents an increase of \$68.7 million or 0.5 percent from fiscal 2011. An additional \$18 billion of general obligation bonds were authorized but are unissued. Total revenue bonds outstanding

as of Aug. 31, 2012, were \$23.3 billion, which is a decrease of \$912.1 million or 3.8 percent from fiscal 2011. The net decrease of \$912.1 million for revenue bonds is mostly due to a restatement of conduit debt by TxDOT. Note 5 discloses the details on the state's long-term liabilities and Note 6 provides detailed information on the state's bonded indebtedness.

Economic Condition

Texas' economic growth, as evidenced by employment and gross domestic product, matched its long-term average rates in 2012. During the period from December 2011 to December 2012, Texas' nonfarm employment increased by 260,800 jobs, a 2.5 percent year-to-year growth rate. The unemployment rate dropped markedly in recent months, from 7.4 percent in December 2011 to 6.1 percent in December 2012, outperforming the nation's improvement from 8.5 percent to 7.8 percent.

Texas' real gross state product (GSP) increased by 3.2 percent in 2012, more than a percent faster than the nation's 2.1 percent. New oil and gas drilling technologies, a relatively healthier housing market, and robust export performance coalesced to continue a pattern of growth. On the downside, this rate of economic expansion was slower than that of 2010 and 2011, as the oil and gas exploration stabilized after three years of solid growth. Consumer confidence in the West South Central states still reached its highest level since 2008, as consumers reported less anxiety about the stability of national and global economies.

All but one of the state's 11 major industries added jobs in 2012. After four years of net job losses, the fastest job growth rate was in the construction industry, at 6.6 percent, although trade, transportation, and utilities added the largest number of jobs (56,000). Three other service-providing industries added more than 45,000 jobs and experienced growth rates exceeding 3 percent for the year, with these being professional and business

Outstanding Bonded Debt

August 31, 2012 and 2011 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds Payable	\$ 11,314,325	\$ 11,519,544	\$ 3,229,549	\$ 2,955,651	\$ 14,543,874	\$ 14,475,195
Revenue Bonds Payable	4,276,898	5,455,607	19,033,469	18,766,862	23,310,367	24,222,469
Total Bonds Payable	<u>\$ 15,591,223</u>	<u>\$ 16,975,151</u>	<u>\$ 22,263,018</u>	<u>\$ 21,722,513</u>	<u>\$ 37,854,241</u>	<u>\$ 38,697,664</u>

services, education and health services, and leisure and hospitality services. Information, which includes the broadcast media, telecommunications and internet-based services, was the only major industry to lose jobs, sacrificing 1.7 percent of its workforce or 3,300 jobs.

The state's export sales reached another record high during the year and now account for 19.3 percent of the state's gross domestic product. Texas continues to lead all other states in the value of its export trade, which totaled \$266 billion in 2012.

Texas' recovery will continue to outpace that of the nation for the same reasons as in the past. These include continued net migration to the state, an export-conducive location in one of the nation's healthiest economic

regions, an experienced workforce, comparatively strong real estate markets and relatively low costs for business operations.

Contacting the State's Financial Management

This financial report is designed to provide the state's citizens, taxpayers, customers, investors and creditors with a general overview of the state's finances and to demonstrate the state's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial Reporting section of the Texas Comptroller of Public Accounts at 111 E. 17th Street, Austin, Texas 78774.



Section Two
(continued)

Basic Financial Statements

STATE OF TEXAS

Statement of Net Position

August 31, 2012 (Amounts in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 25,691,472	\$ 4,919,379	\$ 30,610,851	\$ 776,929
Short-Term Investments	618,088	1,228,931	1,847,019	876,624
Securities Lending Collateral	389,323	693,110	1,082,433	
Receivables:				
Taxes (Note 24)	3,094,060		3,094,060	
Federal	2,597,125	683,313	3,280,438	36,420
Other Intergovernmental	891,827	69,646	961,473	2,761
Accounts	773,615	1,797,957	2,571,572	174,963
Interest and Dividends	95,012	138,953	233,965	8,619
Gifts		185,627	185,627	
Investment Trades	9,049	474,347	483,396	
Other	88,123	302,144	390,267	63
From Fiduciary Funds	139,565	4	139,569	
Due From Component Units (Note 12)	89		89	
Inventories	325,690	153,107	478,797	3,855
Prepaid Items	3,697	123,169	126,866	35,327
Loans and Contracts	79,004	290,185	369,189	1,606
Other Current Assets	84	376,199	376,283	1,825
Restricted:				
Cash and Cash Equivalents	10,507	3,072,144	3,082,651	30,908
Short-Term Investments		356,898	356,898	
Loans and Contracts	81,613	83,558	165,171	1,012
Total Current Assets	<u>34,887,943</u>	<u>14,948,671</u>	<u>49,836,614</u>	<u>1,950,912</u>
Noncurrent Assets:				
Internal Balances (Note 12)	29,046	(29,046)		
Loans and Contracts	1,865,615	4,282,189	6,147,804	18,687
Investments	28,921,833	5,640,391	34,562,224	3,233
Receivables:				
Taxes (Note 24)	136,452		136,452	
Federal	30,156		30,156	
Gifts		226,826	226,826	
Other	248,060	450	248,510	1,653
Restricted:				
Cash and Cash Equivalents		17,112	17,112	
Short-Term Investments		1,453	1,453	
Investments		32,346,619	32,346,619	249,753
Receivables		181,601	181,601	
Loans and Contracts	1,327,845	3,106,040	4,433,885	9,339
Other	88,006	4,550	92,556	
Assets Held in Trust		2,900	2,900	
Deferred Charges	34,432	100,472	134,904	
Other Noncurrent Assets	4	195,461	195,465	10,211
Capital Assets: (Note 2)				
Non-Depreciable or Non-Amortizable	66,457,705	5,751,560	72,209,265	5,602
Depreciable or Amortizable, Net	11,991,077	18,591,906	30,582,983	56,252
Total Noncurrent Assets	<u>111,130,231</u>	<u>70,420,484</u>	<u>181,550,715</u>	<u>354,730</u>
Total Assets	<u>146,018,174</u>	<u>85,369,155</u>	<u>231,387,329</u>	<u>2,305,642</u>
DEFERRED OUTFLOWS				
Deferred Outflow of Resources (Note 7)		773,010	773,010	
Total Deferred Outflow of Resources	<u>0</u>	<u>773,010</u>	<u>773,010</u>	<u>0</u>

Concluded on the following page

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF TEXAS

Statement of Net Position (concluded)

August 31, 2012 (Amounts in Thousands)

August 31, 2012 (Amounts in Thousands)	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
LIABILITIES				
Current Liabilities:				
Payables:				
Accounts	\$ 5,106,640	\$ 1,537,540	\$ 6,644,180	\$ 329,070
Payroll	634,772	715,368	1,350,140	759
Other Intergovernmental	330,008	18,432	348,440	
Federal	125	31,365	31,490	30,046
Investment Trades	22,864	533,073	555,937	
Interest	371,308	61,148	432,456	3,059
Tax Refunds (Note 24)	725,477		725,477	
Annuities		12,892	12,892	
To Fiduciary Funds	2,847		2,847	
Internal Balances (Note 12)	865,668	(865,668)		
Due To Primary Government (Note 12)				89
Unearned Revenue	4,471,290	2,890,400	7,361,690	249,686
Obligations/Reverse Repurchase Agreement	66,293		66,293	
Obligations/Securities Lending	488,975	693,110	1,182,085	
Short-Term Debt (Note 4)	9,800,000		9,800,000	
Claims and Judgments (Note 5)	50,183	16,708	66,891	
Capital Lease Obligations (Note 5, 8)	5,365	3,514	8,879	54
Employees' Compensable Leave (Note 5)	439,322	364,698	804,020	3,701
Notes and Loans Payable (Note 5)	170,932	673,538	844,470	9,570
General Obligation Bonds Payable (Note 5, 6)	383,782	129,075	512,857	
Revenue Bonds Payable (Note 5, 6)	178,378	2,165,794	2,344,172	25,053
Pollution Remediation Obligation (Note 5)	51,876		51,876	
Liabilities Payable From Restricted Assets (Note 5)		541,137	541,137	
Funds Held for Others		142,843	142,843	267
Hedging Derivative Liability (Note 7)		2,244	2,244	
Other Current Liabilities	203,823	283,567	487,390	254,160
Total Current Liabilities	24,369,928	9,950,778	34,320,706	905,514
Noncurrent Liabilities:				
Claims and Judgments (Note 5)	83,042	44,348	127,390	
Capital Lease Obligations (Note 5, 8)	6,338	18,124	24,462	56
Employees' Compensable Leave (Note 5)	293,574	340,545	634,119	2,184
Notes and Loans Payable (Note 5)	1,209,870	1,401,431	2,611,301	44,512
General Obligation Bonds Payable (Note 5, 6)	10,930,543	3,100,474	14,031,017	
Revenue Bonds Payable (Note 5, 6)	4,098,520	16,867,675	20,966,195	253,866
Pollution Remediation Obligation (Note 5)	195,508		195,508	
Liabilities Payable From Restricted Assets (Note 5)		2,959,350	2,959,350	
Assets Held for Others		851,724	851,724	
Net Pension Obligation (Note 9)	3,058,675		3,058,675	
Net OPEB Obligation (Note 11)		2,867,745	2,867,745	
Hedging Derivative Liability (Note 7)		770,766	770,766	
Other Noncurrent Liabilities		164,470	164,470	246,665
Total Noncurrent Liabilities	19,876,070	29,386,652	49,262,722	547,283
Total Liabilities	44,245,998	39,337,430	83,583,428	1,452,797
NET POSITION				
Invested in Capital Assets, Net of Related Debt	63,458,493	9,712,946	73,171,439	63,230
Restricted for:				
Education	779,724	2,531,612	3,311,336	140,847
Highways	139,441		139,441	
Debt Service	1,389,875	409,734	1,799,609	
Capital Projects	241,924	535,500	777,424	
Veterans Land Board Housing Programs		693,050	693,050	
Unemployment Trust Fund		1,481,132	1,481,132	
Funds Held as Permanent Investments:				
Nonexpendable	12,786,286	15,926,936	28,713,222	
Expendable	16,778,380	5,945,582	22,723,962	
Other	1,632,867	15,565	1,648,432	74,169
Unrestricted	4,565,186	9,552,678	14,117,864	574,599
Total Net Position	\$ 101,772,176	\$ 46,804,735	\$ 148,576,911	\$ 852,845

STATE OF TEXAS

Statement of Activities

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government	\$ 3,116,737	\$ 1,036,382	\$ 1,022,258	\$
Education	25,724,127	480,475	7,895,740	
Employee Benefits	423,492	134		
Teacher Retirement State Contributions	2,390,178			
Health and Human Services	44,737,457	1,910,599	29,390,231	
Public Safety and Corrections	5,294,730	342,782	543,227	
Transportation	4,484,662	2,224,635	2,892,143	34,705
Natural Resources and Recreation	1,634,659	699,872	1,047,124	12,873
Regulatory Services	410,724	710,209	5,508	
Interest on General Long-Term Debt	715,148			
Total Governmental Activities	<u>88,931,914</u>	<u>7,405,088</u>	<u>42,796,231</u>	<u>47,578</u>
Business-Type Activities:				
General Government	149,663	50,996	120,156	
Education	22,667,292	11,671,987	9,102,185	259,723
Health and Human Services	5,117,829	2,894,246	2,734,963	
Public Safety and Corrections	91,313	102,593		
Transportation	215,845	85,819		15
Natural Resources and Recreation	346,150	40,084	585,601	12
Lottery	3,027,943	4,191,587	7	
Total Business-Type Activities	<u>31,616,035</u>	<u>19,037,312</u>	<u>12,542,912</u>	<u>259,750</u>
Total Primary Government	<u>\$ 120,547,949</u>	<u>\$ 26,442,400</u>	<u>\$ 55,339,143</u>	<u>\$ 307,328</u>
COMPONENT UNITS				
Component Units	<u>\$ 2,806,197</u>	<u>\$ 2,464,820</u>	<u>\$ 314,814</u>	<u>\$</u>
Total Component Units	<u>\$ 2,806,197</u>	<u>\$ 2,464,820</u>	<u>\$ 314,814</u>	<u>\$ 0</u>

General Revenues

Taxes:

Sales and Use

Motor Vehicle and Manufactured Housing

Motor Fuels

Franchise

Oil and Natural Gas Production

Insurance Occupation

Cigarette and Tobacco

Other

Unrestricted Investment Earnings

Settlement of Claims

Gain on Sale of Capital Assets

Other General Revenues

Capital Contributions

Contributions to Permanent and Term Endowments

Transfers - Internal Activities (Note 12)

Total General Revenues, Contributions
and Transfers

Change in Net Position

Net Position, September 1, 2011

Restatements (Note 14)

Net Position, September 1, 2011, as Restated

Net Position, August 31, 2012

The accompanying notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Units
Governmental Activities	Business-Type Activities	Total	
\$ (1,058,097)	\$	\$ (1,058,097)	\$
(17,347,912)		(17,347,912)	
(423,358)		(423,358)	
(2,390,178)		(2,390,178)	
(13,436,627)		(13,436,627)	
(4,408,721)		(4,408,721)	
666,821		666,821	
125,210		125,210	
304,993		304,993	
(715,148)		(715,148)	
<u>(38,683,017)</u>	<u>0</u>	<u>(38,683,017)</u>	<u>0</u>
	21,489	21,489	
	(1,633,397)	(1,633,397)	
	511,380	511,380	
	11,280	11,280	
	(130,011)	(130,011)	
	279,547	279,547	
	1,163,651	1,163,651	
<u>0</u>	<u>223,939</u>	<u>223,939</u>	<u>0</u>
<u>(38,683,017)</u>	<u>223,939</u>	<u>(38,459,078)</u>	<u>0</u>
			(26,563)
<u>0</u>	<u>0</u>	<u>0</u>	<u>(26,563)</u>
24,349,600		24,349,600	
3,580,663		3,580,663	
3,195,332		3,195,332	
4,574,184		4,574,184	
3,727,498		3,727,498	
1,528,111		1,528,111	
1,428,413		1,428,413	
1,954,752		1,954,752	
645,813	133,680	779,493	(6,611)
620,898	378	621,276	
7,163	543	7,706	735
1,880,352	248,725	2,129,077	1,414
930		930	
	136,800	136,800	
<u>(3,944,781)</u>	<u>3,944,781</u>		
<u>43,548,928</u>	<u>4,464,907</u>	<u>48,013,835</u>	<u>(4,462)</u>
<u>4,865,911</u>	<u>4,688,846</u>	<u>9,554,757</u>	<u>(31,025)</u>
97,252,687	42,134,228	139,386,915	888,310
(346,422)	(18,339)	(364,761)	(4,440)
<u>96,906,265</u>	<u>42,115,889</u>	<u>139,022,154</u>	<u>883,870</u>
<u>\$ 101,772,176</u>	<u>\$ 46,804,735</u>	<u>\$ 148,576,911</u>	<u>\$ 852,845</u>

STATE OF TEXAS

Balance Sheet – Governmental Funds

August 31, 2012 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
ASSETS					
Cash and Cash Equivalents	\$ 17,366,123	\$ 3,571,283	\$ 1,470,216	\$ 3,228,406	\$ 25,636,028
Short-Term Investments	69,217		37,709	117,082	224,008
Securities Lending Collateral			370,498		370,498
Receivables:					
Accounts	427,214	146,399	80,004	3,138	656,755
Taxes (Note 24)	2,938,660	218,717		73,135	3,230,512
Federal	2,271,394	333,859		22,028	2,627,281
Investment Trades	2,568		548	5,571	8,687
Other Intergovernmental	831,289	60,538			891,827
Interest and Dividends	3,950	8,189	68,390	12,511	93,040
Other	336,183				336,183
Due From Other Funds (Note 12)	132,857	252,515		73,450	458,822
Due From Component Units (Note 12)	89				89
Interfund Receivable (Note 12)	38,498			457	38,955
Inventories	199,562	125,971		157	325,690
Prepaid Items	1,589	2,097	6	5	3,697
Investments	529,638		27,365,805	737,749	28,633,192
Loans and Contracts	517,612	392,325	3,505	1,031,177	1,944,619
Other Assets				88	88
Restricted:					
Cash and Cash Equivalents	5,782			4,725	10,507
Loans and Contracts	620,394			789,064	1,409,458
Other Assets	5			88,001	88,006
Total Assets	<u>\$ 26,292,624</u>	<u>\$ 5,111,893</u>	<u>\$ 29,396,681</u>	<u>\$ 6,186,744</u>	<u>\$ 66,987,942</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	\$ 3,567,799	\$ 883,449	\$ 7,988	\$ 84,676	\$ 4,543,912
Investment Trades	361		18,054	633	19,048
Other Intergovernmental	330,008				330,008
Tax Refunds (Note 24)	725,477				725,477
Payroll	526,384	101,716	2,434	4,238	634,772
Federal	125				125
Interest	18,692				18,692
Due To Other Funds (Note 12)	1,138,033	4,109	451	67,974	1,210,567
Interfund Payable (Note 12)	3,872			2,938	6,810
Deferred Revenues	1,057,804	3,261,582	94,660	364,905	4,778,951
Obligations/Reverse Repurchase Agreements	66,293				66,293
Obligations/Securities Lending			470,169		470,169
Other Liabilities	194,215	8,135		1,473	203,823
Short-Term Debt (Note 4)	9,800,000				9,800,000
Total Liabilities	<u>17,429,063</u>	<u>4,258,991</u>	<u>593,756</u>	<u>526,837</u>	<u>22,808,647</u>
Fund Balances/(Deficits):					
Nonspendable (Note 13)	677,781	128,068	12,041,080	745,373	13,592,302
Restricted (Note 13)	1,763,735	1,033,985	16,761,845	4,101,274	23,660,839
Committed (Note 13)	5,283,325	201,935		811,052	6,296,312
Assigned (Note 13)	44,076			2,208	46,284
Unassigned (Note 13)	1,094,644	(511,086)			583,558
Total Fund Balances	<u>8,863,561</u>	<u>852,902</u>	<u>28,802,925</u>	<u>5,659,907</u>	<u>44,179,295</u>
Total Liabilities and Fund Balances	<u>\$ 26,292,624</u>	<u>\$ 5,111,893</u>	<u>\$ 29,396,681</u>	<u>\$ 6,186,744</u>	<u>\$ 66,987,942</u>

The accompanying notes to the financial statements are an integral part of this statement.

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

August 31, 2012 (Amounts in Thousands)

Total Fund Balance – Governmental Funds \$ 44,179,295

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets less accumulated depreciation and amortization are included in the statement of net position. (Note 2)

Capital Assets – Non-Depreciable or Non-Amortizable	\$ 66,457,705	
Capital Assets – Depreciable or Amortizable, Net	<u>11,991,077</u>	78,448,782

Some of the state's resources are not currently available and are not reported in the funds.

Deferred charges for unamortized bond issuance cost	34,432	
Derivative Instruments (Note 7)	<u>25,121</u>	59,553

Some of the state's revenues will be collected after year-end but are not available soon enough to pay current year's expenditures and therefore are deferred in the funds. 961,817

Deferred revenues were recorded as an offset to capital assets recognized related to service concession arrangements (SCA). The SCAs are not reported in the governmental funds. (653,561) *

* The deferred revenues will be reclassified as deferred inflows upon implementation of GASB 60 in fiscal 2013.

Long-term liabilities applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. These liabilities, however, are included in the statement of net position. (Note 5 and Note 9)

Claims and Judgments	(133,225)	
Capital Lease Obligations	(11,703)	
Employees' Compensable Leave	(732,896)	
Notes and Loans Payable	(1,380,802)	
General Obligation Bonds Payable	(11,314,325)	
Revenue Bonds Payable	(4,276,898)	
Pollution Remediation Obligation	(247,384)	
Net Pension Obligation	<u>(3,058,675)</u>	(21,155,908) **

** current portion = \$1,279,838 and noncurrent portion = \$19,876,070

Interest payable applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. These liabilities, however, are included in the statement of net position. (352,616)

The internal service fund is used by management to charge the costs of employees life, accident and health insurance benefits fund to individual funds. Since governmental activities are the predominant activities of internal service funds, the assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.

284,814

Net Position of Governmental Activities \$ 101,772,176

STATE OF TEXAS

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
REVENUES					
Taxes	\$ 38,326,801	\$ 2,366,486	\$	\$ 3,477,300	\$ 44,170,587
Federal	35,307,134	2,853,866		58,353	38,219,353
Licenses, Fees and Permits	2,775,037	1,544,935	1,817	753,942	5,075,731
Interest and Other Investment Income	534,884	37,747	2,513,549	118,381	3,204,561
Land Income	32,042	9,650	390,499	15	432,206
Settlement of Claims	586,765	24,429			611,194
Sales of Goods and Services	1,608,370	17,949	46,762	186,560	1,859,641
Other	3,830,393	1,833	43	55,605	3,887,874
Total Revenues	<u>83,001,426</u>	<u>6,856,895</u>	<u>2,952,670</u>	<u>4,650,156</u>	<u>97,461,147</u>
EXPENDITURES					
Current:					
General Government	2,782,656	17,164		264,740	3,064,560
Education	24,499,872		76,075	1,139,168	25,715,115
Employee Benefits	1,728			11,873	13,601
Teacher Retirement State Contributions	1,640,592				1,640,592
Health and Human Services	44,705,422			3,270	44,708,692
Public Safety and Corrections	4,404,410	629,135		81,029	5,114,574
Transportation	31,477	3,752,230		4,773	3,788,480
Natural Resources and Recreation	1,559,236			59,514	1,618,750
Regulatory Services	342,807	2,560		67,074	412,441
Capital Outlay	205,862	2,669,323	41	653,253	3,528,479
Debt Service:					
Principal	24,633	58,713		496,420	579,766
Interest	43,753			681,686	725,439
Other Financing Fees	456	5,132		2,004	7,592
Total Expenditures	<u>80,242,904</u>	<u>7,134,257</u>	<u>76,116</u>	<u>3,464,804</u>	<u>90,918,081</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,758,522</u>	<u>(277,362)</u>	<u>2,876,554</u>	<u>1,185,352</u>	<u>6,543,066</u>
OTHER FINANCING SOURCES (USES)					
Transfer In (Note 12)	4,891,199	433,409		1,953,305	7,277,913
Transfer Out (Note 12)	(5,779,918)	(453,685)	(1,020,887)	(3,994,482)	(11,248,972)
Bonds and Notes Issued	99,700			238,617	338,317
Bonds Issued for Refunding				37,940	37,940
Premiums on Bonds Issued				14,381	14,381
Payment to Escrow for Refunding				(62,086)	(62,086)
Sale of Capital Assets	18,816	12,318			31,134
Increase in Obligations Under Capital Leases	88	2,779			2,867
Insurance Recoveries	1,467	159			1,626
Total Other Financing Sources (Uses)	<u>(768,648)</u>	<u>(5,020)</u>	<u>(1,020,887)</u>	<u>(1,812,325)</u>	<u>(3,606,880)</u>
Net Change in Fund Balances	<u>1,989,874</u>	<u>(282,382)</u>	<u>1,855,667</u>	<u>(626,973)</u>	<u>2,936,186</u>
Fund Balances, September 1, 2011	7,184,566	751,539	26,947,258	7,183,357	42,066,720
Restatements (Note 14)	(310,879)	383,745		(896,477)	(823,611)
Fund Balances, September 1, 2011, as Restated	<u>6,873,687</u>	<u>1,135,284</u>	<u>26,947,258</u>	<u>6,286,880</u>	<u>41,243,109</u>
Fund Balances, August 31, 2012	<u>\$ 8,863,561</u>	<u>\$ 852,902</u>	<u>\$ 28,802,925</u>	<u>\$ 5,659,907</u>	<u>\$ 44,179,295</u>

The accompanying notes to the financial statements are an integral part of this statement.

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

Net Change in Fund Balances \$ 2,936,186

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities, however, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlay exceeds depreciation in the current period is:

Capital Outlay	\$3,528,479	
Depreciation Expense (Note 2)	(969,324)	
Amortization Expense (Note 2)	(36,766)	
	<u>2,522,389</u>	2,522,389

The effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net position. (23,971)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (1,620,511)

The internal service fund is used by management to charge the costs of the employees life, accident and health insurance benefits fund to individual funds. The adjustments for the internal service fund "close" the fund by allocating these amounts to participating governmental activities. 56,830

Bond proceeds provide current financial resources to governmental funds, but increase long-term liabilities in the statement of net position. Repayment of long-term debt consumes current financial resources and is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net position.

Bonds and Notes Issued	(376,257)	
Premiums on Bond Proceeds	(14,381)	
Increase in Obligations Under Capital Leases	(2,867)	
Repayment of Bond and Capital Lease Principal	641,852	
	<u>248,347</u>	248,347

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 746,600

Transfers of capital assets are not reported in the governmental funds. In addition, resource flows between fiduciary funds and governmental funds are converted to revenues or expenses on the statement of activities.

Capital Asset Transfers	41	
Increase in Revenues	228	
Increase in Expenses	(26,465)	
Net Change in Transfers	26,237	
	<u>41</u>	41

Change in Net Position of Governmental Activities \$ 4,865,911

STATE OF TEXAS

Statement of Net Position – Proprietary Funds

August 31, 2012 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 4,572,196	\$ 736	\$ 137,572	\$ 208,875	\$ 4,919,379	\$ 55,444
Short-Term Investments	336,789			892,142	1,228,931	394,080
Securities Lending Collateral	511,401			181,709	693,110	18,825
Restricted:						
Cash and Cash Equivalents	916,722	1,389,012		766,410	3,072,144	
Short-Term Investments	98,957		176,625	81,316	356,898	
Loans and Contracts	17			83,541	83,558	
Receivables:						
Federal	670,014	7,429		5,870	683,313	
Other Intergovernmental	69,446			200	69,646	
Accounts	1,436,460	302,284	27,613	31,600	1,797,957	116,860
Interest and Dividends	65,804	6,338		66,811	138,953	1,972
Gifts	185,627				185,627	
Investment Trades	348,253			126,094	474,347	362
Other	299,159			2,985	302,144	
Due From Other Funds (Note 12)	848,173	12,712	578	41,267	902,730	21,332
Interfund Receivable (Note 12)	22,390			394	22,784	
Inventories	129,525		13,154	10,428	153,107	
Prepaid Items	119,749	1,604	1,544	272	123,169	
Loans and Contracts	118,111			172,074	290,185	
Other Current Assets	375,933	5		261	376,199	
Total Current Assets	11,124,726	1,720,120	357,086	2,672,249	15,874,181	608,875
Noncurrent Assets:						
Restricted:						
Cash and Cash Equivalents	(17,025)			34,137	17,112	
Short-Term Investments	1,453				1,453	
Investments	28,146,152		897,131	3,303,336	32,346,619	
Receivables	31,782			149,819	181,601	
Loans and Contracts	105,587			3,000,453	3,106,040	
Other				4,550	4,550	
Loans and Contracts	26,876			4,255,313	4,282,189	
Investments	5,640,778			(387)	5,640,391	263,520
Interfund Receivable (Note 12)	734,790			2,710	737,500	
Gifts Receivable	226,826				226,826	
Other Receivables				450	450	
Capital Assets: (Note 2)						
Non-Depreciable or Non-Amortizable	3,470,382			2,281,178	5,751,560	
Depreciable or Amortizable, Net	18,190,233		482	401,191	18,591,906	
Assets Held in Trust	362			2,538	2,900	
Deferred Charges	49,350	4,517		46,605	100,472	
Other Noncurrent Assets	195,120			341	195,461	
Total Noncurrent Assets	56,802,666	4,517	897,613	13,482,234	71,187,030	263,520
Total Assets	67,927,392	1,724,637	1,254,699	16,154,483	87,061,211	872,395
DEFERRED OUTFLOWS						
Deferred Outflow of Resources (Note 7)	336,328			436,682	773,010	
Total Deferred Outflow of Resources	336,328	0	0	436,682	773,010	0
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	1,414,213	61,146	24,667	37,514	1,537,540	562,728
Payroll	709,927		1,916	3,525	715,368	
Other Intergovernmental	18,432				18,432	
Federal	31,365				31,365	
Investment Trades	387,454			145,619	533,073	3,816
Interest	4,953	11,858		44,337	61,148	
Annuities			12,892		12,892	

Concluded on the following page

STATE OF TEXAS

Statement of Net Position – Proprietary Funds (concluded)

August 31, 2012 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	
LIABILITIES (concluded)						
Current Liabilities (concluded):						
Due To Other Funds (Note 12)	\$ 26,699	\$	\$ 4,095	\$ 3,165	\$ 33,959	\$ 1,636
Interfund Payable (Note 12)	25,794			89	25,883	
Unearned Revenue	2,763,882	54,173		72,345	2,890,400	595
Obligations/Securities Lending	511,401			181,709	693,110	18,806
Claims and Judgments (Note 5)	16,708				16,708	
Capital Lease Obligations (Note 5, 8)	3,514				3,514	
Employees' Compensable Leave (Note 5)	361,498		1,243	1,957	364,698	
Notes and Loans Payable (Note 5)	673,538				673,538	
General Obligation Bonds Payable (Note 5, 6)	9,080			119,995	129,075	
Revenue Bonds Payable (Note 5, 6)	1,849,393	175,110		141,291	2,165,794	
Liabilities Payable From Restricted Assets (Note 5)			289,166	251,971	541,137	
Funds Held for Others	142,843				142,843	
Hedging Derivative Liability (Note 7)	2,244				2,244	
Other Current Liabilities	281,622		1,053	892	283,567	
Total Current Liabilities	9,234,560	302,287	335,032	1,004,409	10,876,288	587,581
Noncurrent Liabilities:						
Interfund Payable (Note 12)	766,546				766,546	
Claims and Judgments (Note 5)	44,348				44,348	
Capital Lease Obligations (Note 5, 8)	18,124				18,124	
Employees' Compensable Leave (Note 5)	338,201		915	1,429	340,545	
Notes and Loans Payable (Note 5)	318,554			1,082,877	1,401,431	
General Obligation Bonds Payable (Note 5, 6)	20,836			3,079,638	3,100,474	
Revenue Bonds Payable (Note 5, 6)	10,731,887	1,393,012		4,742,776	16,867,675	
Liabilities Payable From Restricted Assets (Note 5)			769,627	2,189,723	2,959,350	
Assets Held for Others	849,186			2,538	851,724	
Net OPEB Obligation (Note 11)	2,867,745				2,867,745	
Hedging Derivative Liability (Note 7)	334,084			436,682	770,766	
Other Noncurrent Liabilities	92,877			71,593	164,470	
Total Noncurrent Liabilities	16,382,388	1,393,012	770,542	11,607,256	30,153,198	0
Total Liabilities	25,616,948	1,695,299	1,105,574	12,611,665	41,029,486	587,581
NET POSITION						
Invested in Capital Assets, Net of Related Debt	9,133,022		482	579,442	9,712,946	
Restricted for:						
Education	2,531,612				2,531,612	
Debt Retirement	100,362	100,141		209,231	409,734	
Capital Projects	535,500				535,500	
Veterans Land Board Housing Programs				693,050	693,050	
Unemployment Trust Funds		1,481,132			1,481,132	
Funds Held as Permanent Investments:						
Nonexpendable	15,926,936				15,926,936	
Expendable	5,945,582				5,945,582	
Other		10,065	5,000	500	15,565	284,814
Unrestricted	8,473,758	(1,562,000)	143,643	2,497,277	9,552,678	
Total Net Position	\$42,646,772	\$ 29,338	\$ 149,125	\$ 3,979,500	\$46,804,735	\$ 284,814

The accompanying notes to the financial statements are an integral part of this statement.

* Employees life, accident and health insurance benefits fund is the only internal service fund. Combining statements are not presented.

STATE OF TEXAS

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds				Governmental Activities – Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals
OPERATING REVENUES					
Lottery Collections	\$	\$	\$ 4,191,176	\$	\$ 4,191,176
Tuition Revenue	60,279				60,279
Tuition Revenue – Pledged	4,952,077				4,952,077
Discounts and Allowances	(1,155,399)				(1,155,399)
Hospital Revenue – Pledged	9,050,488				9,050,488
Discounts and Allowances	(4,912,239)				(4,912,239)
Professional Fees	4,411,333				4,411,333
Professional Fees – Pledged	6,335				6,335
Discounts and Allowances	(2,883,531)				(2,883,531)
Auxiliary Enterprises	3,856				3,856
Auxiliary Enterprises – Pledged	1,188,294			102,342	1,290,636
Discounts and Allowances	(61,518)				(61,518)
Unemployment Taxes		2,894,245			2,894,245
Other Sales of Goods and Services	25,751			72,762	98,513
Other Sales of Goods and Services – Pledged	721,832			104,571	826,403
Discounts and Allowances	(202)				(202)
Interest and Investment Income	1,881		5	285,368	287,254
Interest and Investment Income – Pledged	104			80,268	80,372
Federal Revenue	2,065,240	2,734,963		31,992	4,832,195
State Grant Revenue	27,369				27,369
Premium Revenue					
Other Operating Grant Revenue	747,607				747,607
Other Operating Grant Revenue – Pledged	699,420				699,420
Other Revenues	46,535	247,082	982	59,977	354,576
Other Revenues – Pledged	142,307				142,307
Total Operating Revenues	15,137,819	5,876,290	4,192,163	737,280	25,943,552
OPERATING EXPENSES					
Cost of Goods Sold	147,307			74,548	221,855
Salaries and Wages	10,253,144		17,425	42,291	10,312,860
Payroll Related Costs	2,263,539		4,402	10,292	2,278,233
Professional Fees and Services	800,367		4,416	83,701	888,484
Travel	281,620		278	566	282,464
Materials and Supplies	1,906,236		1,726	9,832	1,917,794
Communication and Utilities	716,632		604	1,839	719,075
Repairs and Maintenance	436,563		423	16,319	453,305
Rentals and Leases	241,815		4,452	1,962	248,229
Printing and Reproduction	65,550		11,380	224	77,154
Depreciation and Amortization	1,626,945		216	22,869	1,650,030
Unemployment Benefit Payments		5,064,664			5,064,664
Bad Debt Expense	9,744		435	2,414	12,593
Interest Expense	2,039			274,067	276,106
Scholarships	977,905				977,905
Lottery Fees and Other Costs			313,581		313,581
Lottery Prize Payments			2,632,624		2,632,624
Employee/Participant Benefit Payments				160,063	160,063
Claims and Judgments	19,308				19,308
Net Change in Pension/OPEB Obligations (Note 11)	624,284				624,284
Other Expenses	1,358,283		35,980	60,927	1,455,190
Total Operating Expenses	21,731,281	5,064,664	3,027,942	761,914	30,585,801
Operating Income (Loss)	(6,593,462)	811,626	1,164,221	(24,634)	(4,642,249)

Concluded on the following page

STATE OF TEXAS

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	
NONOPERATING REVENUES (EXPENSES)						
Federal Revenue	\$ 887,300	\$	\$	\$ 307,292	\$ 1,194,592	\$
Gifts	541,702			879	542,581	
Gifts – Pledged	130,952				130,952	
Land Income	6,525			13	6,538	
Interest and Investment Income	3,427,603	22,552	22,442	158,004	3,630,601	13,166
Interest and Investment Income – Pledged	407,745				407,745	
Loan Premium and Fees on Securities Lending				343	343	36
Investing Activities Expense	(76,255)			(892)	(77,147)	
Interest Expense	(521,419)	(50,119)		(143,949)	(715,487)	
Borrower Rebates and Agent Fees	(2,185)			(257)	(2,442)	(14)
Gain (Loss) on Sale of Capital Assets	(21,035)			(463)	(21,498)	
Settlement of Claims				378	378	204
Claims and Judgments	(686)				(686)	
Other Revenues	20,256				20,256	
Other Revenues – Pledged	85,471				85,471	
Other Expenses	(134,407)	(3,047)		(74,977)	(212,431)	
Total Nonoperating Revenues (Expenses)	4,751,567	(30,614)	22,442	246,371	4,989,766	13,392
Income (Loss) Before Capital Contributions, Endowments and Transfers	(1,841,895)	781,012	1,186,663	221,737	347,517	56,830
CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS						
Capital Contributions – Federal	15,289				15,289	
Capital Contributions – Other	244,391			27	244,418	
Contributions to Permanent and Term Endowments	136,800				136,800	
Transfer In (Note 12)	5,582,453	87,350		68,356	5,738,159	
Transfer Out (Note 12)	(576,426)	(26,102)	(1,155,523)	(35,286)	(1,793,337)	
Total Capital Contributions, Endowments and Transfers	5,402,507	61,248	(1,155,523)	33,097	4,341,329	0
Change in Net Position	3,560,612	842,260	31,140	254,834	4,688,846	56,830
Net Position, September 1, 2011	39,104,136	(812,922)	117,985	3,725,029	42,134,228	227,984
Restatements (Note 14)	(17,976)			(363)	(18,339)	
Net Position, September 1, 2011, as Restated	39,086,160	(812,922)	117,985	3,724,666	42,115,889	227,984
Net Position, August 31, 2012	\$42,646,772	\$ 29,338	\$ 149,125	\$3,979,500	\$46,804,735	\$ 284,814

The accompanying notes to the financial statements are an integral part of this statement.

* Employees life, accident and health insurance benefits fund is the only internal service fund. Combining statements are not presented.

STATE OF TEXAS

Statement of Cash Flows – Proprietary Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES						
Proceeds from Customers	\$ 5,956,312	\$ 2,893,606	\$ 4,180,179	\$ 281,425	\$ 13,311,522	\$ 440,857
Proceeds from Tuition and Fees	3,889,683				3,889,683	
Proceeds from Research Grants and Contracts	3,731,788	2,763,302			6,495,090	
Proceeds from Gifts				35	35	
Proceeds from Loan Programs	307,647			578,078	885,725	
Proceeds from Auxiliaries	1,119,246			675	1,119,921	
Proceeds from Other Operating Revenues	601,800	232,187		91,054	925,041	1,384,928
Payments to Suppliers for Goods and Services	(6,345,783)		(377,969)	(370,823)	(7,094,575)	(3,718)
Payments to Employees	(12,504,895)		(21,830)	(52,129)	(12,578,854)	(6,283)
Payments for Loans Provided	(346,660)			(363,261)	(709,921)	
Payments for Lottery Prizes			(2,595,246)		(2,595,246)	
Payments for Unemployment Benefits		(5,123,336)			(5,123,336)	
Payments for Other Operating Expenses	(854,803)			(8,424)	(863,227)	(1,790,369)
Net Cash Provided (Used) by Operating Activities	<u>(4,445,665)</u>	<u>765,759</u>	<u>1,185,134</u>	<u>156,630</u>	<u>(2,338,142)</u>	<u>25,415</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Proceeds from Debt Issuance	1,995			557,406	559,401	
Proceeds from Gifts	656,400				656,400	
Proceeds from Endowments	131,671				131,671	
Proceeds from Transfers from Other Funds	5,061,431	7,540,574		273,768	12,875,773	
Proceeds from Loan Programs	20,087				20,087	
Proceeds from Grant Receipts	539,949			307,740	847,689	
Proceeds from Interfund Payables	71,415			41,628	113,043	
Proceeds from Other Noncapital Financing Activities	511,244		26,144	222	537,610	
Payments of Principal on Debt Issuance	(36,450)	(314,335)		(299,735)	(650,520)	
Payments of Interest	(37,145)	(80,622)		(278,954)	(396,721)	
Payments of Other Costs on Debt Issuance	(122)	(2)		(2,148)	(2,272)	
Payments for Transfers to Other Funds	(319,072)	(7,461,866)	(1,153,560)	(302,503)	(9,237,001)	
Payments for Grant Disbursements	(560)			(76,163)	(76,723)	
Payments for Interfund Receivables				(61,873)	(61,873)	
Payments for Other Noncapital Uses	(104,946)		(191,601)		(296,547)	
Net Cash Provided (Used) by Noncapital Financing Activities	<u>6,495,897</u>	<u>(316,251)</u>	<u>(1,319,017)</u>	<u>159,388</u>	<u>5,020,017</u>	<u>0</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from Sale of Capital Assets	5,711			105	5,816	
Proceeds from Debt Issuance	2,341,991				2,341,991	
Proceeds from State Grants and Contracts	32,602				32,602	
Proceeds from Federal Grants and Contracts	11			968	979	
Proceeds from Gifts	3,868				3,868	
Proceeds from Other Capital and Related Financing Activities	167,478			13	167,491	
Proceeds from Capital Contributions	350,604			3,117	353,721	
Proceeds from Interfund Payables	7,234				7,234	
Payments for Additions to Capital Assets	(2,822,437)		(202)	(2,179)	(2,824,818)	
Payments of Principal on Debt Issuance	(1,618,911)			(26,725)	(1,645,636)	
Payments for Capital Leases	(1,027)			(16)	(1,043)	
Payments of Interest on Debt Issuance	(509,962)			(72,666)	(582,628)	
Payments of Other Costs on Debt Issuance	(158,509)			(32)	(158,541)	
Payments for Interfund Receivables	<u>(3,256)</u>				<u>(3,256)</u>	
Net Cash Used by Capital and Related Financing Activities	<u>(2,204,603)</u>	<u>0</u>	<u>(202)</u>	<u>(97,415)</u>	<u>(2,302,220)</u>	<u>0</u>

Concluded on the following page

STATE OF TEXAS

Statement of Cash Flows – Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from Sale of Investments	\$ 12,783,400	\$	\$ 191,601	\$ 4,381,599	\$ 17,356,600	\$ 7,200
Proceeds from Interest and Investment Income	1,504,364	21,360	1	263,124	1,788,849	548
Proceeds from Principal Payments on Loans				387,246	387,246	
Payments to Acquire Investments	(13,674,316)		(19,473)	(4,875,004)	(18,568,793)	
Payments for Nonprogram Loans Provided				(815,779)	(815,779)	
Net Cash Provided by Investing Activities	613,448	21,360	172,129	(658,814)	148,123	7,748
Net Increase (Decrease) in Cash and Cash Equivalents	459,077	470,868	38,044	(440,211)	527,778	33,163
Cash and Cash Equivalents, September 1, 2011	5,012,816	918,880	99,528	1,449,632	7,480,856	22,281
Restatements				1	1	
Cash and Cash Equivalents, September 1, 2011, as Restated	5,012,816	918,880	99,528	1,449,633	7,480,857	22,281
Cash and Cash Equivalents, August 31, 2012	\$ 5,471,893	\$ 1,389,748	\$ 137,572	\$ 1,009,422	\$ 8,008,635	\$ 55,444
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating Income (Loss)	\$ (6,593,462)	\$ 811,626	\$ 1,164,221	\$ (24,634)	\$ (4,642,249)	\$ 43,438
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Depreciation and Amortization	1,626,945		216	22,869	1,650,030	
Bad Debt Expense	255,184		435	2,414	258,033	
Operating Income (Loss) and Cash Flow Categories Classification Differences	(55,653)			46,256	(9,397)	(115)
Changes in Assets and Liabilities:						
(Increase) Decrease in Receivables	(308,969)	(14,422)	(11,985)	(795)	(336,171)	12,517
(Increase) Decrease in Due From Other Funds	(378)			135	(243)	(20,731)
(Increase) Decrease in Inventories	(8,968)		(4,555)	(865)	(14,388)	
(Increase) Decrease in Notes Receivable	(118)				(118)	
(Increase) Decrease in Loans and Contracts	(4,908)			77,545	72,637	
(Increase) Decrease in Other Assets	(60,609)			(1,248)	(61,857)	
(Increase) Decrease in Prepaid Expenses	(7,053)		(1,544)	145	(8,452)	
Increase (Decrease) in Payables	(75,114)	(34,552)	38,346	5,219	(66,101)	36,627
Increase (Decrease) in Deposits	(5,043)				(5,043)	
Increase (Decrease) in Due To Other Funds	2,454			38	2,492	(46,389)
Increase (Decrease) in Unearned Revenue	139,965	3,107		(1,423)	141,649	68
Increase (Decrease) in Employees' Compensable Leave	21,028			106	21,134	
Increase (Decrease) in Benefits Payable	624,440			27,583	652,023	
Increase (Decrease) in Other Liabilities	4,594			3,285	7,879	
Total Adjustments	2,147,797	(45,867)	20,913	181,264	2,304,107	(18,023)
Net Cash Provided (Used) by Operating Activities	\$ (4,445,665)	\$ 765,759	\$ 1,185,134	\$ 156,630	\$ (2,338,142)	\$ 25,415
NONCASH TRANSACTIONS						
Donation of Capital Assets	\$ 76,457	\$	\$	\$	\$ 76,457	\$
Net Change in Fair Value of Investments	\$ 1,703,477	\$	\$ 22,441	\$ 113,659	\$ 1,839,577	\$ 5,395
Borrowing Under Capital Lease Purchase	\$ 2,545	\$	\$	\$	\$ 2,545	\$
Other	\$ 282,399	\$	\$	\$ (415)	\$ 281,984	\$

The accompanying notes to the financial statements are an integral part of this statement.

* Employees life, accident and health insurance benefits fund – no combining statements presented.

STATE OF TEXAS

Statement of Fiduciary Net Position

August 31, 2012 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund*	Private- Purpose Trust Funds	Agency Funds
ASSETS				
Cash and Cash Equivalents	\$ 2,080,766	\$ 1	\$ 486,908	\$ 1,070,334
Restricted Cash and Cash Equivalents			14	
Securities Lending Collateral	22,955,321			
Investments:				
U.S. Government	26,535,005	5,242,580	20,179	215,604
Corporate Equity	28,742,583		267,439	177,289
Corporate Obligations	895,507	371,092	2,388	10
Repurchase Agreements		7,929,000		32,313
Foreign Securities	31,413,919			
Externally Managed Investments	35,990,346			
Other	9,349,669		2,154,681	59,870
Receivables:				
Federal	9,970			
Interest and Dividends	331,729	9,092	87	1,236
Accounts	255,021		212	7,979
Other Intergovernmental				2,358
Investment Trades	1,383,919		15,745	
Other	1,446		4,403	
Due From Other Funds (Note 12)	11,737		6	900
Prepaid Items	3,732			
Properties, at Cost, Net of Accumulated Depreciation or Amortization	40,540		843	
Other Assets			91,292	1,742,153
Total Assets	<u>160,001,210</u>	<u>13,551,765</u>	<u>3,044,197</u>	<u>3,310,046</u>
LIABILITIES				
Payables:				
Accounts	\$ 299,382	\$ 1,706	\$ 20,857	\$ 205
Investment Trades	668,556	4,500	2,466	
Payroll	3,134			
Other Intergovernmental				791,322
Interest			14	
Annuities	691,237			
Due To Other Funds (Note 12)	122,128		8	27,229
Unearned Revenue	31,442		391	
Employees' Compensable Leave	7,702			
Obligations/Securities Lending	22,933,654			
Funds Held for Others			91,292	2,491,279
Other Liabilities	108,663	567	19	11
Total Liabilities	<u>24,865,898</u>	<u>6,773</u>	<u>115,047</u>	<u>3,310,046</u>
NET POSITION				
Held in Trust for:				
Pension Benefits and Other Purposes	135,135,312			
Individuals, Organizations and Other Governments			2,929,150	
Pool Participants		13,544,992		
Total Net Position	<u>\$ 135,135,312</u>	<u>\$ 13,544,992</u>	<u>\$ 2,929,150</u>	<u>\$ 0</u>

The accompanying notes to the financial statements are an integral part of this statement.

* The activities of the Texas local government investment pool (TexPool) and the Texas local government investment pool prime (TexPool Prime) are reported as an external investment trust fund. Combining statements are not presented.

STATE OF TEXAS

Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund*	Private- Purpose Trust Funds
ADDITIONS			
Contributions:			
Member Contributions	\$ 3,020,250	\$	\$
State Contributions	2,475,562		
Premium Contributions	363,348		
Federal Contributions	148,970		7,299
Other Contributions	976,194		121,453
Total Contributions	6,984,324	0	128,752
Investment Income:			
From Investing Activities:			
Net Appreciation in Fair Value of Investments	7,140,714		60,621
Interest and Investment Income	2,526,133	26,766	27,611
Total Investing Income	9,666,847	26,766	88,232
Less Investing Activities Expense	211,861	8,206	1,420
Net Income from Investing Activities	9,454,986	18,560	86,812
From Securities Lending Activities:			
Securities Lending Income	170,899		
Less Securities Lending Expense:			
Borrower Rebates	24,372		
Management Fees	35,988		
Net Income from Securities Lending	110,539	0	0
Total Net Investment Income	9,565,525	18,560	86,812
Capital Share and Individual Account Transactions:			
Net Decrease in Participant Investments	0	(439,714)	0
Other Additions:			
Settlement of Claims			4,964
Other Revenue	3,306		305,335
Transfer In (Note 12)	114,821		
Total Other Additions	118,127	0	310,299
Total Additions	16,667,976	(421,154)	525,863
DEDUCTIONS			
Benefits	11,492,269		95,737
Refunds of Contributions	470,698		
Transfer Out (Note 12)	88,396		188
Intergovernmental Payments			58,669
Administrative Expenses	56,255		6,773
Depreciation and Amortization Expense	2,628		39
Settlement of Claims			93,664
Interest Expense	12		4
Other Expenses	3,620		188,550
Total Deductions	12,113,878	0	443,624
INCREASE (DECREASE) IN NET POSITION	4,554,098	(421,154)	82,239
NET POSITION			
Net Position, September 1, 2011	130,580,910	13,966,146	2,846,911
Restatements	304		
Net Position, September 1, 2011, as Restated	130,581,214	13,966,146	2,846,911
Net Position, August 31, 2012	\$ 135,135,312	\$ 13,544,992	\$ 2,929,150

The accompanying notes to the financial statements are an integral part of this statement.

* The activities of the Texas local government investment pool (TexPool) and the Texas local government investment pool prime (TexPool Prime) are reported as an external investment trust fund. Combining statements are not presented.

State of Texas

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NOTE 1

Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The accompanying financial statements of the state of Texas were prepared in conformance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). Financial reporting for the state is based on all GASB pronouncements, as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions and Accounting Research Bulletins issued on or before Nov. 30, 1989, which do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after Nov. 30, 1989, are not followed in the preparation of the accompanying financial statements.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* was implemented in fiscal 2012. This statement amends the requirements in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. It sets forth criteria establishing when the effective hedging relationship continues and when to continue applying hedge accounting.

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*, which was effective for fiscal 2012, addresses issues related to the use of the alternative measurement method and the frequency of timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The state of Texas is not an employer in an agent multiple-employer OPEB plan and therefore this statement does not apply to the state.

FINANCIAL REPORTING ENTITY

For financial reporting purposes, the state of Texas includes all funds, agencies, boards, commissions, authorities, institutions of higher education and other organizations that comprise its legal entity. The reporting entity also includes legally separate organizations for which the state is financially accountable and any other organizations that would cause the financial statements to be misleading or incomplete if they were excluded. All activities considered part of the state are included. These activities provide a range of services in the areas of:

- General government
- Education
- Employee benefits
- Teacher retirement state contributions
- Health and human services
- Public safety and corrections
- Transportation
- Natural resources and recreation
- Regulatory services

The reporting entity for the state is in accordance with the criteria established by GASB. Note 19 provides a listing and brief summary of the component units and their relationship to the state of Texas. These financial statements present the balances and activities of the state of Texas (the primary government) and its component units.

The state's public school districts and junior and community colleges are excluded from the reporting entity. The state is not financially accountable for these entities. They are legally separate entities that are fiscally independent of the state. This independence warrants their exclusion from the financial statements.

FINANCIAL REPORTING STRUCTURE

The basic financial statements include government-wide financial statements and fund financial statements. The reporting model based on GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, focuses on the state as a whole in the government-wide

financial statements and major individual funds in the fund financial statements.

Government-wide Financial Statements

The government-wide financial statements (statement of net position and statement of activities) display information about the state as a whole and the change in aggregate financial position resulting from the activities of the fiscal period, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the state (including its blended component units), and its discretely presented component units. In the statement of net position, both the governmental and business-type activities columns are presented on a consolidated basis by column using an economic resources measurement focus and an accrual basis of accounting, which incorporates noncurrent investments, capital assets, and long-term debt and obligations.

The statement of activities reflects both the gross and net cost per functional category (public safety and corrections, transportation, etc.), which is supported by general government revenues (sales and use taxes, franchise taxes, etc.). In the statement of activities, program revenues are netted against program expenses, including depreciation and amortization, to present the net cost of each program. Program revenues are directly associated with the function or with a business-type activity. Internally dedicated resources are reported as general revenues rather than program revenues. Certain general government administrative overhead expenses are charged to the various functions of the state. These charges are paid from applicable funding sources and are reflected as direct expenses.

Program revenues include charges for services; operating grants and contributions; and capital grants and contributions. Charges for services include special assessments and payments made by parties outside of the state's citizenry if that money is restricted to a particular program. Operating grants include operating-

specific and discretionary (either operating or capital) grants while capital grants reflect capital-specific grants. Multipurpose grants that provide financing for more than one program are reported as program revenue if the amounts restricted to each program are specifically identifiable. Multipurpose grants that do not provide for specific identification of the programs and amounts are reported as general revenues.

Fiduciary funds are presented in the fund financial statements by type (pension and other employee benefit trust, external investment trust, private-purpose trust and agency). The assets of fiduciary funds are held for the benefit of others and cannot be used to address activities or obligations of the government. They are therefore not incorporated into the government-wide financial statements.

Fund Financial Statements

The fund financial statements are presented after the government-wide financial statements. They display information about major funds individually and in the aggregate for governmental and proprietary funds. In governmental and fiduciary funds, assets and liabilities are presented in order of relative liquidity. In proprietary funds, assets and liabilities are presented in a classified format that distinguishes between all current and noncurrent assets and liabilities. Current assets in the classified format are those considered available for appropriation and expenditure. Examples of expendable financial resources include cash, various receivables and short-term investments not restricted for specific purposes. All other assets are considered noncurrent. Current liabilities are obligations to be paid within the next fiscal year. Examples include payables and the current portion of long-term liabilities.

The major governmental funds in the fund financial statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. This presentation is deemed most appropriate to demonstrate compliance with legal and covenant requirements, the source and use of financial

resources, and how the state's actual results of activities conform to the budget. A reconciliation between the governmental fund financial statements and the governmental activities column of the government-wide financial statements is presented since a different measurement focus and basis of accounting is used. The reconciliation explains the adjustments required to convert the fund-based financial statements.

The state uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. State transactions are recorded in the fund types described below.

Governmental Fund Types

Governmental funds focus on the sources and uses of funds. Included in the governmental fund financial statements are general, special revenue, debt service, capital projects and permanent funds. The general fund is the principal operating fund used to account for most of the state's general activities. It accounts for all financial resources except those accounted for in other funds. Special revenue funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Debt service funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest. Capital projects funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations or other governments. Permanent funds are used

to report resources legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the state's programs.

The state's major governmental funds are listed below.

The **General Fund** is the primary operating fund for the state and includes transactions for general government, education, employee benefits, teacher retirement state contributions, health and human services, public safety and corrections, transportation, natural resources and recreation, and regulatory services.

The **State Highway Fund** receives funds allocated by law for public road construction, maintenance, monitoring and law enforcement of the state's highway system.

The **Permanent School Fund** is an investment fund consisting of land and proceeds from the sale of land that establishes a perpetual provision for the support of the public schools of Texas. All dividends and other income are allocated to the credit of the available school fund.

Proprietary Fund Types

Proprietary funds focus on determining operating income, changes in financial position and cash flows. Generally accepted accounting principles similar to those used by private sector businesses are applied in accounting for these funds. Included in proprietary fund financial statements are enterprise funds and an internal service fund.

Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the following criteria is met:

- The activity is financed with debt secured solely by a pledge of the net revenues from fees and charges of the activity.
- Laws or regulations require the activity's costs of providing services, including capital costs (such as depreciation, amortization or debt service), be recovered with fees and charges.

- The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

Internal service funds are used to report any activity that provides goods or services, on a cost reimbursement basis, to other funds, departments or agencies of the reporting entity or other governments. The employees life, accident and health insurance benefits fund accounts for the services provided to state of Texas agencies and institutions of higher education that participate in the Texas Employees Group Benefits Program.

The state's major enterprise funds are listed below.

The **Colleges and Universities** include:

- University of Texas System
- Texas A&M University System
- Texas Tech University System
- University of Houston System
- Texas State University System
- University of North Texas System
- Texas Woman's University
- Stephen F. Austin State University
- Texas Southern University
- Midwestern State University
- Texas State Technical College

These institutions of higher education are represented as a single column in the proprietary fund financial statements and individually in the schedules of colleges and universities in the other supplementary information section of this report.

The **Unemployment Trust Fund** contains the activity of the state related to the administration of state and federally financed unemployment benefits.

The **Lottery Fund** receives fees from external users that are used to operate the state lottery, finance debt and make investments to meet future installment obligations to prize winners.

Fiduciary Fund Types

Fiduciary funds account for assets held in either a trustee capacity or as an agent for individuals, private

organizations, other governmental units and/or other funds. When assets are held under the terms of a formal trust agreement, either a pension trust fund or a private-purpose trust fund is used.

Pension and other employee benefit trust funds report resources held in trust for the members and beneficiaries of defined benefit pension plans.

External investment trust funds report the external portions of investment pools reported by the sponsoring government.

Private-purpose trust funds report all other trust arrangements whose principal and interest benefit individuals, private organizations or other governments. These trusts include tobacco settlement money, reserve for insurance company liquidations, relief of catastrophic insurance losses, contributions of prison inmates, educational savings plans and others.

Agency funds report assets the state holds on behalf of others in a purely custodial capacity. Agency funds involve only the receipt and remittance of fiduciary resources to individuals, private organizations or other governments. Agency funds include those funds established to account for the collection of sales and use tax for distribution to localities, bond escrow funds, deposits of insurance carriers, child support collections and other miscellaneous accounts.

Component Units

All component units of the state of Texas are reported as nonmajor component units. The combining statement of net position – component units and the combining statement of activities – component units are presented for all discrete component units.

Additional information about blended and discretely presented component units can be found in Note 19. More detailed information of the individual component units is available from the component units' separately issued financial statements.

BASIS OF ACCOUNTING, MEASUREMENT FOCUS AND FINANCIAL STATEMENT PRESENTATION

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all economic resources and obligations of the reporting entity, both current and noncurrent, are reported. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, generally only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end. The state of Texas considers all major revenue (i.e., operating grants and contributions and taxes) reported in the governmental funds to be available if the revenues are due at fiscal year-end and collected within 60 days thereafter.

In the governmental fund financial statements, revenues that are earned but not expected to be collected within 60 days are not available to liquidate the liabilities of the current period and are reported as deferred

revenue. Deferred revenue also includes unearned revenue when cash or other assets are received prior to being earned.

Under the accrual basis of accounting, as used in the government-wide financial statements, proprietary fund financial statements and fiduciary fund financial statements, unearned revenue is recorded when cash or other assets are collected in advance before the revenue recognition criteria are met. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Amounts paid to acquire capital assets are capitalized as assets rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities rather than other financing sources. Amounts paid to reduce long-term indebtedness of the state are reported as reductions of the related liabilities rather than expenditures.

Proprietary funds distinguish operating from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary funds' principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and capital asset depreciation and amortization. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Although agency funds use the accrual basis of accounting, they do not have a measurement focus because they do not recognize revenues and expenses.

Budgetary Information

The budgetary comparison schedule and the notes to the budgetary comparison schedule are in the required supplementary information other than management discussion and analysis (MD&A) section. The budgetary comparison schedule presents the original budget, the final budget and the actual activity of the major governmental funds. Reconciliations for the general fund and the state highway fund budget-

ary basis to the GAAP basis are presented as required supplementary information with explanations of the reconciling items. Budgetary information for nonmajor governmental funds is presented as other supplementary information. The governmental funds with legally adopted annual budgets are the general fund, the state highway fund and the other nonmajor special revenue funds listed in other supplementary information.

Cash and Cash Equivalents

For reporting purposes, this account includes cash on hand, cash in transit, cash in local banks, cash in the federal and state treasuries, and cash equivalents. Cash in local banks is primarily held by agency funds, employee benefit trust funds, enterprise funds and component units. Cash balances of most state funds are pooled and invested by the Treasury Operations Division of the Comptroller's office. Interest earned is deposited in the general revenue fund and specified funds designated by law.

The statement of cash flows for proprietary funds presents the change in cash and cash equivalents during the fiscal year. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near maturity they present insignificant risk of a decrease in value due to changes in interest rates. Investments with an original maturity of three months or less and used for cash management rather than investing activities are considered cash equivalents. Restricted securities held as collateral for securities lending are not included as cash equivalents on the statement of cash flows.

Investments

Investments are reported at fair value in the balance sheet or other statements of net financial position. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale or through consultation with industry advisors. Certain money

market investments may be reported at amortized cost provided the investment has a remaining maturity of one year or less at date of purchase. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement or statement of activities.

Receivables and Payables

The major receivables for governmental activities are federal and taxes receivables. The major receivables for business-type activities are federal, patient and tuition receivables. Receivables represent amounts due to the state as of Aug. 31, 2012, from private persons or organizations. Amounts expected to be collected within the next fiscal year are classified as current and amounts expected to be collected beyond the next fiscal year are classified as noncurrent. All receivables are recorded net of allowances for uncollectible accounts.

Taxes receivable represent amounts earned in fiscal 2012 that will be collected sometime in the future. In the government-wide financial statements, a corresponding amount is recorded as revenue. In the governmental fund financial statements, the portion considered available is recorded as revenue; the remainder is recorded as deferred revenue. Taxes receivable are estimated based on collection experience. Tax refunds payable represent amounts owed to taxpayers for overpayments or amended tax returns. See Note 24 for details on taxes receivable and tax refunds payable.

Other receivables in the general fund consist primarily of program receivables for health care assistance and temporary assistance for needy families. Other receivables in the colleges and universities fund consist primarily of public university fund land income and private sponsored programs. Activities between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are interfund loans. All other outstanding balances between funds are reported as due from or due to other funds. Any residual balances between governmental and business-type

activities are reported in the government-wide financial statements as “internal balances.”

Noncurrent interfund receivables in the general fund, as shown in Note 12, are reported as nonspendable fund balance. Noncurrent interfund receivables in other governmental funds are reported as committed, restricted or assigned fund balance.

Investment trade receivables are reported for sales of investments pending settlement. Investment trade payables are purchases of investments pending settlement.

Inventories and Prepaid Items

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost generally utilizing the last-in, first-out method.

The consumption method of accounting is used to account for inventories and prepaid items that appear in both governmental and proprietary fund types. The costs of inventories are expensed when they are consumed. Prepaid items reflect payments for costs applicable to future accounting periods and are recorded in both government-wide financial statements and fund financial statements.

Restricted Assets

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include certain proceeds of enterprise fund general obligation and revenue bonds, as well as certain revenues, set aside for statutory or contractual requirements. Assets held in reserve for guaranteed student loan defaults are also included.

Capital Assets

Capital assets are reported in proprietary funds, fiduciary funds and on the government-wide financial statements. The capitalization threshold and the estimated useful life of the assets vary depending upon the asset type. Note 2 includes a table identifying the

capitalization threshold and the estimated useful life by asset type. It also provides information on the state’s depreciation/amortization policy and other detailed information.

The state adopted the modified approach for reporting its highway system. This approach reflects a reasonable value of the asset and cost required to maintain the service potential at established minimum standards in lieu of depreciation. The state developed and implemented an asset management system that establishes minimum standards and makes a yearly determination whether the minimum standards are being met. Disclosures of the minimum standards and the current status of the state’s system of highways are included in the required supplementary information other than MD&A section of this report.

Long-Term Liabilities

Reporting long-term liabilities in the statement of net position requires two components – the amount due within one year (current) and the amount due in more than one year (noncurrent).

General long-term liabilities consist of claims and judgments, capital lease obligations, employees’ compensable leave and other noncurrent liabilities. General long-term liabilities are not reported as liabilities in governmental funds but are reported in the governmental activities column in the government-wide statement of net position. The state reports rebatable arbitrage in claims and judgments. General long-term debt is not limited to liabilities arising from debt issuances, but may also include noncurrent liabilities on lease-purchase agreements and other commitments that are not current liabilities.

In the government-wide financial statements and proprietary fund financial statements, bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the straight-line, bonds outstanding or effective interest method. Bonds payable are reported net of the applicable bond accretion, pre-

mium or discount. Deferred issuance costs are reported as deferred charges and amortized over the term of the debt.

In the governmental fund financial statements, bond premiums, discounts and bond issuance costs are recognized during the current period. The face amount of the debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Employees' Compensable Leave Balances

Annual leave, commonly referred to as vacation leave, and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employee. Benefits are earned when the employee's right to receive compensation is attributable to services already rendered and it is probable the employer will compensate the employee for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Employees accrue vacation time at a rate of eight to 21 hours per month depending on years of employment. The maximum number of hours that can be carried forward to the next fiscal year ranges from 180 hours to 532 hours based on years of service.

Overtime under the federal Fair Labor Standards Act and state laws can be accumulated in lieu of immediate payment as compensatory leave (at one-and-one-half hours for each overtime hour worked) for nonexempt, nonemergency employees to a maximum of 240 hours. All overtime exceeding 240 hours must be paid with the next regular payroll. At termination or death, all overtime balances must be paid in full. For emergency personnel (firefighters, law enforcement, prison officers, etc.), overtime can be accumulated to a maximum of 480 hours. Unused overtime is included in the calculation of current and noncurrent liabilities because each employee may be paid for the overtime or use it as compensatory time.

Compensatory leave is allowed for exempt employees not eligible for overtime pay. This leave is accumulated on an hour-for-hour basis and must be taken within one year from date earned or it lapses. There is no death or termination benefit for compensatory leave and it is nontransferable. Compensatory leave is reported as a current liability.

Sick leave is accrued at a rate of eight hours per month with no limit on the amount that can be carried forward to the next fiscal year. Accumulated sick leave is not paid at employee termination, although an employee's estate may be paid for one-half of the accumulated sick leave to a maximum of 336 hours. In 2009, the 81st Legislature passed House Bill 2559, which does not allow employees hired on or after Sept. 1, 2009, to apply unused sick or annual leave as service credit to meet retirement eligibility. State employees hired before Sept. 1, 2009, are entitled to service credit in the retirement system for unused sick leave on the last day of employment. The maximum amount of the state's contingent obligation for sick leave was not determined. The probability of a material impact on state operations in any given fiscal year is considered remote.

Capital Lease Obligations

Capital lease contracts payable, which are not funded by current resources, represent the liability for future lease payments under capital lease contracts. Note 8 provides details for capital lease obligations.

Conduit Debt Obligations

Conduit debt issued by the state in the form of bonds is for the express purpose of providing capital financing for a specific third party that is not part of the state's financial reporting entity. The bonds are secured by the property financed and are payable solely from payments received from the third party on the underlying loans. The state has no obligations for the debt beyond the resources provided by the loan with the third party on whose behalf the bonds were

issued. The state has chosen to continue reporting conduit debt obligations as long-term liabilities on the balance sheet for debt issued prior to GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations, an Amendment of NCGA Statement 1*, as well as subsequent debt obligations that are substantially the same as those already reported. Interpretation 2, which was effective for Texas beginning Sept. 1, 1996, requires only note disclosure for issuance of all other conduit debt. Note 6 provides details on conduit debt obligations.

Deferred Inflows and Deferred Outflows

Changes in fair values of hedging derivative assets and liabilities are reported as deferred inflows and deferred outflows. Note 7 presents additional information about derivative instruments.

Net Position and Fund Balances

The state reports restricted net position when constraints placed on resources are either:

- Externally imposed by creditors (such as debt covenants), grantors, contributors, laws or regulations of other governments
- Imposed by law through constitutional provisions or enabling legislation

Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Restricted net position is designated as either expendable or nonexpendable. Expendable restricted resources are those that may be expended for either a stated purpose or for a general purpose subject to externally imposed stipulations. Nonexpendable restricted resources are those required to be retained in perpetuity. Restricted resources include the state's permanent endowment funds subject to externally imposed restrictions governing their use.

Invested in capital assets, net of related debt, consists of capital assets – including restricted capital assets – net of accumulated depreciation/amortization and reduced by the outstanding balances of bonds, mortgages, notes or other debt attributable to the acquisition, construction or improvement of such assets. Significant unspent related debt proceeds are not included in the calculation of invested in capital assets, net of related debt. The unspent portion of the debt is included in restricted for capital projects.

Fund balances for governmental funds are classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances include amounts that cannot be spent because they are either not in a spendable form or they are legally or contractually required to be maintained intact. Fund balances are reported as restricted when constraints placed upon the use of resources are either:

- Externally imposed by creditors (such as debt covenants), grantors, contributors, laws or regulations of other governments
- Imposed by law through constitutional provisions or enabling legislation

Committed fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed through legislation passed into law by formal action of the Texas Legislature, the state's highest level of decision-making authority. These committed amounts cannot be used for any other purpose unless the Legislature removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Fund balances are reported as assigned when the state intends for resources to be used for specific purposes, yet the constraints do not meet the requirements to be reported as restricted or committed. Intent is expressed by either the Texas Legislature or a body (for example, a budget or finance committee) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. Unassigned fund balances represent amounts that

have not been restricted, committed or assigned to specific purposes. The general fund is the only fund that can report a positive unassigned fund balance. Note 13 presents disaggregated fund balances.

When both restricted and unrestricted resources are available for use, it is the state's policy to use restricted resources first and then unrestricted resources as they are needed. When only unrestricted resources are available for use, it is the state's policy to use committed resources first, then assigned resources, and lastly unassigned resources.

Interfund Activity and Transactions – Government-wide Financial Statements

Interfund activity is eliminated from the government-wide financial statements with the exception of activities between governmental activities and business-type activities. Interfund activity with fiduciary funds is reclassified and reported as external activity.

Interfund payables and receivables are eliminated from the statement of net position except for amounts due between governmental and business-type activities. These amounts are reported as internal balances on the statement of net position. Interfund activities between the primary government and component units with a different fiscal year-end are limited and immaterial.

Interfund transactions with discretely presented component units are reclassified and reported as external activity. Note 12 provides details of interfund activities and transactions.

Risk Financing

The state maintains a combination of commercial insurance and self-insurance programs. The state is self-insured for workers' compensation and unemployment compensation claims. The liabilities are funded on a pay-as-you-go basis. The group insurance programs are provided through a combination of insurance contracts, self-funded health plans and health maintenance organization contracts.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims incurred but not reported. See Note 17 for additional information.

NOTE 2

Capital Assets

Capital assets, which include land, infrastructure, buildings, equipment and intangible assets, of governmental funds are recorded as expenditures at the time of purchase and capitalized in the governmental activities column of the government-wide statement of net position. Capital assets of other funds and component units are capitalized in the fund in which they are utilized. Capital assets are assets with a cost above a set minimum capitalization threshold that, when acquired, have an estimated useful life of more than one year. The capitalization thresholds and useful lives of the state's various categories of capital assets are as follows:

Capitalization of Assets

Type	Capitalization Threshold	Estimated Useful Life
Land and Land Improvements	\$ 0	Not applicable
Infrastructure, Non-Depreciable	0	Not applicable
Construction in Progress	0	Not applicable
Buildings and Building Improvements	100,000	5-30 years
Infrastructure, Depreciable	500,000	10-50 years
Facilities and Other Improvements	100,000	10-60 years
Furniture and Equipment	5,000	3-15 years
Vehicles, Boats and Aircraft	5,000	5-40 years
Other Capital Assets		
(Library Books, Leasehold Improvements and Livestock)		
Depreciable	Various	3-22 years
Non-Depreciable	Various	Not applicable
Internally Generated		
Computer Software	1,000,000	3-10 years
Other Computer Software	100,000	3-10 years
Land Use Rights – Permanent	0	Not applicable
Land Use Rights – Term	100,000	10-60 years
Other Intangible Capital Assets	100,000	3-15 years

The table below presents the composition of the state's capital assets, adjustments, reclassifications, additions and deletions during fiscal 2012. The adjustment column includes assets not previously reported,

accounting errors and other changes. The reclassifications column includes amounts for transfers of capital assets between agencies and reclassifies amounts for completed construction projects previously reported as

Capital Asset Activity

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	PRIMARY GOVERNMENT					
	Balance 9/1/11	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/12
GOVERNMENTAL ACTIVITIES						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	\$ 8,915,039	\$ 42,466	\$ 438	\$ 565,388	\$ (3,608)	\$ 9,519,723
Infrastructure	49,823,503	(255,078)	579,047	514,936	(674)	50,661,734
Construction in Progress	5,033,330	(268,472)	(1,497,115)	2,910,482		6,178,225
Other Capital Assets	26,399	1,997	13	298	(44)	28,663
Land Use Rights – Permanent	67,573			1,905	(118)	69,360
Total Non-Depreciable & Non-Amortizable Assets	63,865,844	(479,087)	(917,617)	3,993,009	(4,444)	66,457,705
Depreciable Assets						
Buildings and Building Improvements	5,612,312	(3,074)	229,651	8,158	(7,318)	5,839,729
Infrastructure	19,795,776	28,147	642,495	68,954	(19,341)	20,516,031
Facilities and Other Improvements	213,323		3,974	3,689		220,986
Furniture and Equipment	968,017	(2,597)	7,892	77,648	(60,679)	990,281
Vehicles, Boats and Aircraft	1,055,743	(110)	27,605	63,335	(55,871)	1,090,702
Other Capital Assets	146,654			2,890	(8,812)	140,732
Total Depreciable Assets at Historical Cost	27,791,825	22,366	911,617	224,674	(152,021)	28,798,461
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(3,284,942)	3,938		(183,602)	5,454	(3,459,152)
Infrastructure	(11,264,348)	12,946		(627,303)	15,618	(11,863,087)
Facilities and Other Improvements	(143,248)			(7,465)		(150,713)
Furniture and Equipment	(725,144)	1,683	95	(73,318)	57,428	(739,256)
Vehicles, Boats and Aircraft	(637,504)	(68)	36	(70,746)	46,969	(661,313)
Other Capital Assets	(66,316)			(6,890)	7,095	(66,111)
Total Accumulated Depreciation*	(16,121,502)	18,499	131	(969,324)	132,564	(16,939,632)
Depreciable Assets, Net	11,670,323	40,865	911,748	(744,650)	(19,457)	11,858,829
Intangible Capital Assets – Amortizable						
Land Use Rights – Term	21,968			2,189	(670)	23,487
Computer Software	334,952	(821)	5,910	12,696	(12,630)	340,107
Other Intangible Capital Assets – Term	31,967			16,971		48,938
Total Intangible Assets at Historical Cost	388,887	(821)	5,910	31,856	(13,300)	412,532
Less Accumulated Amortization for:						
Land Use Rights – Term	(6,302)			(3,183)	670	(8,815)
Computer Software	(249,474)	809		(30,245)	12,563	(266,347)
Other Intangible Capital Assets – Term	(1,784)			(3,338)		(5,122)
Total Accumulated Amortization*	(257,560)	809	0	(36,766)	13,233	(280,284)
Amortizable Assets, Net	131,327	(12)	5,910	(4,910)	(67)	132,248
Governmental Activities Capital Assets, Net	\$ 75,667,494	\$ (438,234)	\$ 41	\$ 3,243,449	\$ (23,968)	\$ 78,448,782

* Depreciation and amortization expense was charged to governmental activities as follows:

General Government	\$ 55,086
Education	9,774
Employee Benefits	3
Health and Human Services	45,392
Public Safety and Corrections	179,174
Transportation	682,349
Natural Resources and Recreation	32,478
Regulatory Services	1,834
Total	\$ 1,006,090

Continued on the following page

construction in progress. The additions column includes current year purchases, depreciation and amortization. The deletions column presents assets removed during the current fiscal year.

All capital assets are capitalized at cost or estimated historical cost if actual historical cost is not available. Depreciation or amortization is reported on all “exhaustible” assets. “Inexhaustible assets,” such as

Capital Asset Activity (continued)

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	PRIMARY GOVERNMENT					
	Balance 9/1/11	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/12
BUSINESS-TYPE ACTIVITIES						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	\$ 1,524,203	\$ (3,488)	\$ 12,046	\$ 38,933	\$ (1,072)	\$ 1,570,622
Infrastructure	1,629,344	21		14		1,629,379
Construction in Progress	2,635,344	(192,623)	(2,297,851)	1,985,220	(1,432)	2,128,658
Other Capital Assets	396,815	34	166	10,422	(4,350)	403,087
Land Use Rights – Permanent	19,814					19,814
Other Intangible Capital Assets – Permanent	7,213	(7,213)				
Total Non-Depreciable & Non-Amortizable Assets	6,212,733	(203,269)	(2,285,639)	2,034,589	(6,854)	5,751,560
Depreciable Assets						
Buildings and Building Improvements	22,098,255	89,449	1,980,999	240,302	(50,158)	24,358,847
Infrastructure	1,346,316	92,490	70,568	17,573	(5,495)	1,521,452
Facilities and Other Improvements	1,446,610	5,833	160,995	11,698	(9,210)	1,615,926
Furniture and Equipment	4,139,878	(19,084)	52,520	437,742	(162,815)	4,448,241
Vehicles, Boats and Aircraft	232,108	1,300	719	28,587	(9,306)	253,408
Other Capital Assets	1,440,965	830	(63,734)	69,302	(19,918)	1,427,445
Total Depreciable Assets at Historical Cost	30,704,132	170,818	2,202,067	805,204	(256,902)	33,625,319
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(9,158,821)	885		(921,661)	17,172	(10,062,425)
Infrastructure	(559,463)	(745)		(50,994)		(611,202)
Facilities and Other Improvements	(623,747)	(68)	(43,201)	(63,794)	7,558	(723,252)
Furniture and Equipment	(2,704,179)	(108)	478	(361,119)	126,463	(2,938,465)
Vehicles, Boats and Aircraft	(166,595)	(37)	(32)	(20,091)	8,626	(178,129)
Other Capital Assets	(915,896)	54	43,202	(63,890)	17,275	(919,255)
Total Accumulated Depreciation**	(14,128,701)	(19)	447	(1,481,549)	177,094	(15,432,728)
Depreciable Assets, Net	16,575,431	170,799	2,202,514	(676,345)	(79,808)	18,192,591
Intangible Capital Assets – Amortizable						
Land Use Rights – Term	255					255
Computer Software	1,037,782	(82)	83,084	76,834	(12,358)	1,185,260
Other Intangible Capital Assets – Term	2,359	7,213				9,572
Total Intangible Assets at Historical Cost	1,040,396	7,131	83,084	76,834	(12,358)	1,195,087
Less Accumulated Amortization for:						
Land Use Rights – Term	(38)			(26)		(64)
Computer Software	(638,621)	101		(166,876)	10,912	(794,484)
Other Intangible Capital Assets – Term	(59)	(210)		(955)		(1,224)
Total Accumulated Amortization**	(638,718)	(109)	0	(167,857)	10,912	(795,772)
Amortizable Assets, Net	401,678	7,022	83,084	(91,023)	(1,446)	399,315
Business-Type Activities Capital Assets, Net	\$ 23,189,842	\$ (25,448)	\$ (41)	\$ 1,267,221	\$ (88,108)	\$ 24,343,466

** Depreciation and amortization expense was charged to business-type activities as follows:

Education	\$ 1,626,949
Transportation	17,266
Lottery	216
Other Business-Type Activities	4,975
Total	\$ 1,649,406

Concluded on the following page

Capital Asset Activity (concluded)

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	PRIMARY GOVERNMENT					Balance 8/31/12
	Balance 9/1/11	Adjustments	Reclassifications	Additions	Deletions	
COMPONENT UNITS						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	\$ 3,705	\$	\$	\$	\$	\$ 3,705
Construction in Progress	1,213			684		1,897
Total Non-Depreciable & Non-Amortizable Assets	4,918	0	0	684	0	5,602
Depreciable Assets						
Buildings and Building Improvements	42,159			28		42,187
Infrastructure	17			4		21
Facilities and Other Improvements	449					449
Furniture and Equipment	43,104	176		1,358	(477)	44,161
Vehicles, Boats and Aircraft	11,994			918	(1,456)	11,456
Other Capital Assets	60			4		64
Total Depreciable Assets at Historical Cost	97,783	176	0	2,312	(1,933)	98,338
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(12,080)			(910)		(12,990)
Infrastructure	(1)			(1)		(2)
Facilities and Other Improvements	(410)			(17)		(427)
Furniture and Equipment	(24,947)	(195)		(4,140)	301	(28,981)
Vehicles, Boats and Aircraft	(9,536)			(464)	1,285	(8,715)
Other Capital Assets	(6)			(3)		(9)
Total Accumulated Depreciation	(46,980)	(195)	0	(5,535)	1,586	(51,124)
Depreciable Assets, Net	50,803	(19)	0	(3,223)	(347)	47,214
Intangible Capital Assets – Amortizable						
Computer Software	18,802	301		3,289	(160)	22,232
Total Intangible Assets at Historical Cost	18,802	301	0	3,289	(160)	22,232
Less Accumulated Amortization for:						
Computer Software	(10,471)	(100)		(2,783)	160	(13,194)
Total Accumulated Amortization	(10,471)	(100)	0	(2,783)	160	(13,194)
Amortizable Assets, Net	8,331	201	0	506	0	9,038
Component Units Capital Assets, Net	\$ 64,052	\$ 182	\$ 0	\$ (2,033)	\$ (347)	\$ 61,854

works of art and historical treasures, are not depreciated. Professional, academic and research library books and materials are considered “exhaustible” assets and are depreciated. Intangible assets with determinable useful lives are amortized. Donated assets are reported at fair value on the acquisition date. Assets are depreciated or amortized over their estimated useful life using the straight-line method.

Most land improvements (infrastructure), including curbs, sidewalks, fences, bridges and lighting systems, are capitalized. The state’s highway infrastructure, expected to be maintained in perpetuity, is reported using the modified approach. The required supplement-

tary information other than MD&A section of this report provides further detail on the state’s highway infrastructure.

Capitalization of interest incurred during the construction of capital assets is not applicable for governmental activities. For proprietary fund types and fiduciary funds with measurement focus on income determination or capital maintenance, the net amount of interest cost for qualifying assets is capitalized.

The state’s capitalization policy regarding works of art and historical treasures is that capitalization is encouraged, but not required, for works of art and historical treasures that meet certain conditions. Works of

art and historical treasures not required to be capitalized are those:

- Held for public exhibition, education or research in furtherance of public service, rather than for financial gain
- Protected, kept unencumbered, cared for and preserved
- Subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for the collection

Assets of this nature include the historical archives of the Texas General Land Office. This vast collection includes approximately 35 million records dating back to 1720, including approximately 80 thousand maps, sketches and plat maps.

NOTE 3

Deposits, Investments and Repurchase Agreements

Authority for Investments

All monies in funds established in the Comptroller of Public Accounts Treasury Operations Division (Treasury) by the Texas Constitution or by an act of the Legislature are pooled for investment purposes. State statutes authorize the Treasury to invest state funds in fully collateralized time deposits; direct security repurchase agreements; reverse repurchase agreements; obligations of the United States and its agencies and instrumentalities; bankers' acceptances; commercial paper; and contracts written by the Comptroller, which are commonly known as covered call options.

The Treasury obtains direct access to the services of the Federal Reserve System through the Texas Treasury Safekeeping Trust Company (Trust Company). The Federal Reserve Bank requires that the Trust Company maintain a positive cash balance in the account during and at the end of the day. The Trust Company met those

requirements throughout fiscal 2012. The Trust Company safekeeps U.S. Government securities in book-entry form for the major investment funds, safekeeps collateral pledged to secure deposits of the Treasury in financial institutions, and acts as trustee for other public bodies to hold and manage funds on their behalf.

Certain state agencies, component units, public employee retirement systems and institutions of higher education are authorized to invest funds not deposited with the Treasury. As of Aug. 31, 2012, the Teacher Retirement System of Texas (TRS), the permanent school fund (PSF), the Employees Retirement System of Texas (ERS) and the University of Texas System (UT) reported over 85 percent of the total investment fair value. TRS, PSF, ERS and UT make investments following the "prudent investor rule." Authorized investments include equities, fixed income obligations, cash equivalents and other investments.

Collateralization

State law requires all Treasury funds deposited in financial institutions above the amounts insured by the Federal Deposit Insurance Corporation be fully collateralized by pledging, to the Treasury, securities valued at market excluding accrued interest. Generally, the list of eligible securities includes all U.S. Treasury obligations, most federal agency obligations, and securities issued by state agencies and political subdivisions within the state. All securities pledged to the Treasury must be held by a third-party bank doing business in the state through a main office or one or more branches, any Federal Reserve Bank, the Trust Company, any Federal Home Loan Bank or in the vault of the Treasury. During fiscal 2012 no depository holding state funds failed.

State agencies and institutions of higher education with deposits of public funds not managed by the Treasury are required to secure deposits through collateral pledged by depository banks and savings and loan

institutions. Eligible collateral securities are prescribed by state law; however, retirement systems are exempt by statute from this requirement.

External Investment Pool

The activities of the Texas local government investment pool (TexPool) and the Texas local government investment pool prime (TexPool Prime) are reported as an external investment trust fund. Separate audited financial statements may be obtained from the Trust Company.

Deposits

As of Aug. 31, 2012, the carrying amount of deposits for governmental and business-type activities, fiduciary funds and discretely presented component units was \$1.2 billion, \$275.6 million and \$220.9 million, respectively. These amounts consist of all cash in local banks and a

portion of short-term investments. These amounts are included on the combined statement of net position as part of the “Cash and Cash Equivalents,” “Securities Lending Collateral” and “Investments” line items. As of Aug. 31, 2012, the total bank balance for governmental and business-type activities, fiduciary funds and discretely presented component units was \$1.1 billion, \$273.6 million and \$222 million, respectively.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, deposits or collateral securities in the possession of an outside party will not be recovered. There is no formal deposit policy for managing custodial credit risk. The state’s securities lending programs are subject to custodial credit risk. This type of risk is inherent to the securities lending programs. As of Aug. 31, 2012, the bank balances exposed to custodial credit risk were as follows:

Bank Balances Exposed to Custodial Credit Risk

August 31, 2012 (Amounts in Thousands)

	Uninsured and Uncollateralized	Uninsured and Collateralized with Securities Held by the Pledging Financial Institution
GOVERNMENTAL ACTIVITIES		
Permanent School Fund	\$ 3,170	\$
Other Nonmajor Funds		
Total Governmental Activities	<u>3,170</u>	<u>0</u>
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities	866	93,734
Other Nonmajor Funds	103	
Total Business-Type Activities	<u>969</u>	<u>93,734</u>
Total Governmental and Business-Type Activities	<u>\$ 4,139</u>	<u>\$93,734</u>
FIDUCIARY FUNDS	<u>\$174,073</u>	<u>\$ 0</u>
COMPONENT UNITS	<u>\$ 466</u>	<u>\$ 0</u>

Foreign Currency Risk: Foreign currency risk for bank balances is the risk that changes in exchange rates will adversely affect the deposit. There is no formal deposit policy for managing foreign currency risk. Foreign currency deposits are intended for settlement of

pending international investment trades. The table at the left presents the bank balances exposed to foreign currency risk as of Aug. 31, 2012.

Investments

The fair value of investments is determined from published market prices, quotations from major investment brokers or independent pricing services. In general, the fair value of fixed income securities is based on yields currently available on comparable securities of issuers with similar credit ratings, on prices from fixed income pricing services or on external broker quotes. The changes in the fair value of investments are reported as revenue in the operating statements.

Where no readily ascertainable market value exists (including private equity), fair values can be determined in consultation with investment advisors and Master Trust Custodians. Fair values can also be determined based on the capital account balance at the closest available reporting period, as communicated by the general partner, and adjusted for subsequent contributions, distributions, management fees and reserves.

Money market investments are reported at amortized cost, which approximates market value. Participating interest-earning investment contracts that have a remaining maturity at the time of purchase of one year or less may also be reported at amortized cost, provided the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.

Bank Balances Exposed to Foreign Currency Risk

August 31, 2012 (Amounts in Thousands)

	Governmental and Business-Type Activities	Fiduciary Funds	Component Units
Australian Dollar	\$ 346	\$ 1,803	\$
Botswana Pula		79	
Brazilian Real	48	2,258	
British Pound	132	11,307	
Canadian Dollar	36	1,849	
Chilean Peso		916	
Colombian Peso		2,206	
Costa Rica Colones			3
Croatian Kuna		19	
Czech Koruna		192	
Danish Krone		1,952	
Egyptian Pound		3,193	
Euro	213	58,385	
Ghanaian Cedi		93	
Hong Kong Dollar		53,135	
Hungarian Forint		128	
Indian Rupee		474	
Indonesian Rupiah		992	
Japanese Yen		10,445	
Jordanian Dinar		62	
Kenyan Shilling		23	
Lithuanian Litas		17	
Malaysian Ringgit	534	454	
Mauritius Rupee		79	
Mexican Peso	11	190	37
Moroccan Dirham		67	
New Israeli Shekel		269	
New Zealand Dollar		97	
Nigerian Naira		72	
Norwegian Kroner		1,814	
Pakistani Rupee		17	
Peruvian Nuevo Sol		41	
Philippine Peso		177	
Polish Zloty		488	
Qatar Riyal	805	10	
Romanian Leu		184	
Russian Ruble		36	
Singapore Dollar		8,148	
South African Rand		976	
South Korean Won		747	
Swedish Krona		717	
Swiss Franc	1,042	1,834	
Taiwan Dollar	584	4,846	
Thai Baht		403	
Turkish Lira		951	
United Arab Emirates Dirham		141	
Total	<u>\$ 3,751</u>	<u>\$ 172,286</u>	<u>\$ 40</u>

The fair value of investments as of Aug. 31, 2012, are presented in the table below.

Investment Fair Value			
August 31, 2012 (Amounts in Thousands)			
	Governmental and Business-Type Activities	Fiduciary Funds	Component Units
U.S. Treasury	\$ 15,511,171	\$ 19,154,883	\$ 399,100
U.S. Treasury Strips	335,111	90,588	
U.S. Treasury TIPS	920,859	5,761,401	
U.S. Government Agency	8,329,544	7,176,276	534,491
Corporate Obligations	4,059,750	1,965,267	27,314
Corporate Asset and Mortgage Backed	2,650,805	905,903	263,743
Corporate Equity	17,320,622	28,583,053	
International Obligations	2,447,872	796,690	2,523
International Equity	2,943,696	31,255,750	
International Other Commingled Funds	350,017	3,244,409	
Repurchase Agreements	6,417,492	9,664,190	55,154
Fixed Income and Bond Mutual Fund	4,526,519	436,104	18,584
Other Mutual Funds	212,507	71,527	6
Other Commingled Funds	5,541,827	5,438,046	29,489
Commercial Paper	1,673,210	562,071	14,818
Invested Collateral	997,376	22,955,320	
Securities Lending Collateral Investment Pool	85,056		
Real Estate	3,120,575	443,174	
Derivatives	50,095	86,110	
Externally Managed Investments	20,247,080	36,800,820	
Other Investments	3,922,271	359,565	375,544
Total Investments	\$ 101,663,455	\$ 175,751,147	\$ 1,720,766

ERS, TRS, PSF and UT participate in individual securities lending programs. Cash collateral received by the lending agent on behalf of each entity is invested in a non-commingled pool exclusively for the benefit of the individual entity. Additional information about securities lending activity is disclosed in the “Securities Lending” section of this note. As of Aug. 31, 2012, the investment type balances for the invested securities lending cash collateral were as follows:

Invested Securities Lending Collateral Fair Value		
August 31, 2012 (Amounts in Thousands)		
	Governmental and Business-Type Activities	Fiduciary Funds
U.S. Treasury	\$ 20,298	\$ 356,217
U.S. Government Agency	72,390	
Corporate Obligations	15,525	87,421
Corporate Asset and Mortgage Backed	6,047	
Equity	25,115	867,659
International Obligations	81,569	13,060
International Equity		73,906
Repurchase Agreements	614,746	
Other Commingled Funds		21,557,057
Commercial Paper	110,174	
Other Investments	51,513	
Total Investments	\$ 997,377	\$ 22,955,320

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the value of its investments or collateral securities in the possession of an outside party will not be recovered. There is no formal investment policy

for managing custodial credit risk. Consistent with the securities lending program, underlying securities on loans are subject to custodial credit risk.

As of Aug. 31, 2012, the investments exposed to custodial credit risk were as follows:

Investments Exposed to Custodial Credit Risk		
August 31, 2012 (Amounts in Thousands)		
	Fair Value that is Uninsured and Unregistered with Securities Held by the Counterparty	Fair Value that is Uninsured and Unregistered with Securities Held by the Counterparty's Trust Department or Agent but Not in the State's Name
GOVERNMENTAL ACTIVITIES		
Permanent School Fund		
Corporate Asset and Mortgage Backed Repurchase Agreements	\$ 6,047 364,451	\$
Other Governmental Funds		
Other Commingled Funds		5,805
Total Governmental Activities	<u>370,498</u>	<u>5,805</u>
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities		
U.S. Government Agency	10,149	
Corporate Equity	2,313	8,715
Corporate Asset and Mortgage Backed Fixed Income and Bond Mutual Fund	6,437	2,191
International Other Commingled Funds	13,841	
Miscellaneous	9,103	
Other Proprietary Funds		
Other Commingled Funds		306,580
Repurchase Agreements		114,999
Fixed Income and Bond Mutual Fund		27,310
Total Business-Type Activities	<u>41,843</u>	<u>459,795</u>
Total Governmental and Business-Type Activities	<u>\$412,341</u>	<u>\$465,600</u>
FIDUCIARY FUNDS		
Other Fiduciary Funds		
U.S. Treasury	\$ 18,947	\$
Total Fiduciary	<u>\$ 18,947</u>	<u>\$ 0</u>

Foreign Currency Risk: Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. TRS, PSF, ERS and UT are exposed to investment foreign currency risk. ERS, TRS and the PSF do not have an investment poli-

cy for managing foreign currency risk. UT's investment policy has no limitation on investments in non-U.S. denominated bonds or common stocks.

The investments exposed to foreign currency risk as of Aug. 31, 2012, are presented on the following page.

Investments Exposed to Foreign Currency Risk

August 31, 2012 (Amounts in Thousands)

	Governmental and Business-Type Activities				Fiduciary Funds			
	International Obligations	International Equity	International Other Commingled Funds	Other Investments	International Obligations	International Equity	International Other Commingled Funds	Other Investments
Argentine Peso	\$ 302	\$	\$ 1,130	\$	\$	\$	\$ 3	\$
Australian Dollar	180,058	62,620	3,529	263,623	1,037	1,052,349	985	
Botswana Pula						4,596		
Brazilian Real	260,940	224,321	21,213	131,766		1,091,036	898	
British Pound	213,343	236,028	111,587	720,917		4,058,460	4,934	211,656
Canadian Dollar	46,527	70,479	3,353	37,756	1,210	1,608,350	246	
Cayman Island Dollar	70			358,195				
Chilean Peso	995	5,108	1,444	18,728		136,875	2	
Chinese Yuan	88		6,391					
Colombian Peso	8,797		78	12,102		56,313		
Croatian Kuna						5,868		
Czech Koruna		2,614	947	3,048		38,796		
Danish Krone		6,962	392	35,900		170,209	131	
Egyptian Pound		2,004	632	3,657		42,061		
Euro	497,386	155,737	55,234	1,178,193	75,733	4,650,657	5,463	2,696,720
Ghanaian Cedi						2,231		
Hong Kong Dollar	1,445	289,122	6,070	260,187		2,364,774	739	
Hungarian Forint	29,650	2,062	8	2,707		63,646		
Indian Rupee		32,003	9,323	556	1	561,806	417	
Indonesian Rupiah	1,452	29,117	2,225	26,536		453,909	41	
Japanese Yen	166,673	108,794	10,838	595,892		3,203,209	981	
Jordanian Dinar						7,022		
Kenyan Shilling						8,077		
Lithuanian Litas	471							
Malaysian Ringgit	31,464	41,032	680	36,886		289,258	72	
Mauritius Rupee						5,857		
Mexican Peso	104,420	30,855	6,636	48,603		479,094	320	
Moroccan Dirham		801	12	1,161		14,534		
New Israeli Shekel	8,136		359	10,765		57,568	28	
New Zealand Dollar	100,263		(657)	3,919		16,376		
Nigerian Naira						9,019		
Norwegian Kroner		4,152	526	29,494		243,409		
Pakistani Rupee		1,418				19,642		
Panamanian Balboa	97		177			4,886		
Peruvian Nuevo Sol	265	10	990	286		5,935	45	
Philippine Peso	1,041	21,422	896	9,752		107,875	26	
Polish Zloty	80,850	12,504	(1)	13,887		131,310		
Qatar Riyal	360					19,379		
Romanian Leu						4,886		
Russian Ruble	181		1,297	45,052		12,402	151	
Singapore Dollar	6,466	34,611	2,216	55,953		251,294	131	
South African Rand	41,009	46,251	5,884	79,555		821,553	306	
South Korean Won	33,265	119,222	27,687	153,409		1,657,481	513	
Swedish Krona		32,902	2,510	94,438	2,957	481,935	414	
Swiss Franc		40,767	5,431	252,286		1,451,648	1,414	
Taiwan Dollar		73,037	6,937	108,349		971,381	370	
Thai Baht	3	40,146	3,198	22,194		358,488		
Turkish Lira		26,261	1,842	18,780		314,238	76	
United Arab Emirates Dirham	50	2,280	355			13,855		
Venezuelan Bolivar	2,127							
Total	<u>\$ 1,818,194</u>	<u>\$ 1,754,642</u>	<u>\$ 301,369</u>	<u>\$ 4,634,532</u>	<u>\$ 80,938</u>	<u>\$ 27,318,661</u>	<u>\$ 18,706</u>	<u>\$ 2,908,376</u>

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk ratings are assigned by a nationally recognized statistical rating organization (NRSRO).

TRS' investment policy states that for over-the-counter derivatives, the minimum credit rating, based on a NRSRO, must be at least A- or better at the inception of the contract. The net market value of all over-the-counter derivative positions, less collateral posted, may not exceed \$500 million and all over-the-counter derivative positions without collateral may not exceed 5 percent of the total market value of the fund. Repurchase agreements may not exceed 5 percent of the market value of the total investment portfolio. A securities lending agent must be an organization rated A- or better by a NRSRO.

PSF's investment policy requires investments to adhere to specific Standard & Poor's rating guidelines. Fixed income securities must be rated at least BBB- and short-term money market instruments must be rated at least A-1.

ERS' general investment policy requires that non-cash interest paying securities in the high yield bond portfolios not exceed 15 percent of the market value of the portfolio and that investments in money market funds represent no more than 5 percent of each individual fund.

UT's investment policy has no requirements or limitations for investment ratings.

As of Aug. 31, 2012, the credit quality distribution for securities with credit risk exposure was as follows:

Investments Exposed to Credit Risk

August 31, 2012 (Amounts in Thousands)

	Governmental and Business-Type Activities								Totals
	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments	
AAA	\$ 1,523,038	\$ 217,570	\$ 1,499,390	\$ 583,991	\$ 40,105	\$	\$	\$ 390,934	\$ 4,255,028
AA	8,281,341	718,961	70,126	245,502	5,896,096			169,136	15,381,162
A	2,099	1,092,529	109,684	421,937	114,999			77,188	1,818,436
BBB		1,161,890	49,808	156,474				16,991	1,385,163
BB		140,280	3,639	45,121				25,362	214,402
B		68,102	5,876	4,334				3,170	81,482
CCC		3,545	37,528	1,552					42,625
CC			2,577						2,577
D			1,814						1,814
AAAf						2,896,731			2,896,731
AAAm						497,353			497,353
Aaf						40,334			40,334
A-1							1,516,861		1,516,861
Not Rated	228,151	559,871	868,480	990,898	695,903	1,414,730	191,560	135,629	5,085,222
Total	<u>\$ 10,034,629</u>	<u>\$ 3,962,748</u>	<u>\$ 2,648,922</u>	<u>\$ 2,449,809</u>	<u>\$ 6,747,103</u>	<u>\$ 4,849,148</u>	<u>\$ 1,708,421</u>	<u>\$ 818,410</u>	<u>\$ 33,219,190</u>

Continued on the following page

Investments Exposed to Credit Risk (concluded)

August 31, 2012 (Amounts in Thousands)

Fiduciary Funds									
	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments	Totals
AAA	\$ 5,125,511	\$ 58,073	\$ 209,974	\$ 236,041	\$ 8,365,174	\$	\$	\$ 42,699	\$ 14,037,472
AA	5,457,223	222,111	63,121	152,808	630,055			1	6,525,319
A	653	776,347	25,796	204,417				37,286	1,044,499
BBB		631,434	16,334	151,994				25	799,787
BB		89,633	22,995	40,612					153,240
B		94,524	70,838	6,335				4	171,701
CCC		10,323	146,283	114					156,720
CC		3,092	51,629						54,721
D			3,221						3,221
AAAf						50,736			50,736
Aaf						16,927			16,927
A-1							532,497		532,497
Not Rated	31,798	77,341	295,723	61,850		528,757		5,076	1,000,545
Total	<u>\$ 10,615,185</u>	<u>\$ 1,962,878</u>	<u>\$ 905,914</u>	<u>\$ 854,171</u>	<u>\$ 8,995,229</u>	<u>\$ 596,420</u>	<u>\$ 532,497</u>	<u>\$ 85,091</u>	<u>\$ 24,547,385</u>

Component Units									
	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments	Totals
AAA	\$ 915,719	\$ 18,722	\$ 257,647	\$ 2,245	\$	\$	\$	\$ 39,626	\$ 1,233,959
AA	83,437	3,909	244		42,843				130,433
A		1,751		278					2,029
AAAf						3,296			3,296
AAAm						10,262			10,262
A-1							14,818		14,818
Not Rated	9,931	2,933	5,852		12,311				31,027
Total	<u>\$ 1,009,087</u>	<u>\$ 27,315</u>	<u>\$ 263,743</u>	<u>\$ 2,523</u>	<u>\$ 55,154</u>	<u>\$ 13,558</u>	<u>\$ 14,818</u>	<u>\$ 39,626</u>	<u>\$ 1,425,824</u>

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer. As of Aug. 31, 2012, governmental and business-type activities did not hold more than 5 percent of investments in any one issuer.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. TRS and PSF use the effective weighted duration method to identify and manage interest rate risk. ERS and UT use the modified duration method.

Duration is a measure of the price sensitivity of a debt investment to changes arising from movements in interest rates. Duration is the weighted average maturity of an instrument's cash flows, where the present value of the cash flows serves as the weights. The duration of an instrument can be calculated by multiplying the time until receipt of cash flow by the ratio of the present value of that cash flow to the instrument's total present value. The sum of these weighted time periods is the duration of the instrument. Effective duration extends this analysis to incorporate an option-adjusted measure of an instrument's sensitivity to changes in interest rates. It incorporates the effect of embedded options for corporate bonds

and changes in prepayments for mortgage backed securities. Modified duration estimates the sensitivity of the fund's investments to changes in interest rates.

The investment policy of PSF mandates the average duration of the fixed income portfolio to be consistent with the Barclay Aggregate Bond Index's duration and the duration of the real return portfolio to be consistent with the Barclay's Capital U.S. Treasury Inflation Protected Securities (TIPS) Index. As of Aug. 31, 2012, the Barclay Aggregate Index duration was 5.02 years and the Barclay's TIPS Index was 5.7 years. The maximum maturity for invested securities lending collateral is 397 days except for bank time deposits, which is 60 days, bankers' acceptances, which is 45 days, reverse repurchase agreements, which is 180 days, and floating rate securities, which is three years. The maximum weighted average maturity of the entire collateral portfolio must be 180 days or less. The maximum weighted average interest rate exposure of the entire collateral portfolio must be 60 days or less. TRS, ERS and UT do not have a formal investment policy for managing interest rate risk.

As of Aug. 31, 2012, PSF's investments by investment type, fair value and the effective weighted duration rate were as follows:

Investments Exposed to Interest Rate Risk		
August 31, 2012		
PSF Investment Type	Fair Value (in Thousands)	Effective Weighted Duration Rate
Asset Backed Securities	\$ 87,599	1.49
Commercial Mortgage Backed Securities	289,547	3.58
Corporate Obligations	1,337,418	6.96
Yankee – Corporate Obligations	39,729	10.78
Non Agency Mortgage Backed Securities	38,109	3.14
Sovereign Government Debt	16,514	8.25
U.S. Government Agency Commercial Mortgage Backed Securities	131,759	10.61
U.S. Government Agency Mortgage Backed Securities	1,420,654	2.06
U.S. Government Agency Obligations	458,313	4.38
U.S. Taxable Municipal Bonds	109,766	10.93
U.S. Treasury Securities	1,296,077	6.73
U.S. Treasury TIPS	913,399	7.97
Total	<u>\$6,138,884</u>	<u>5.62</u>

The following table provides information about PSF's interest rate risks and maturities associated with its invested securities lending collateral by investment type as of Aug. 31, 2012.

Invested Securities Lending Collateral Exposed to Interest Rate Risk			
August 31, 2012 (Amounts in Thousands)			
PSF Investment Type	Fair Value	Investment Maturities in Less Than One Year	Investment Maturities Greater Than One Year
Asset Backed Floating Rate Notes	\$ 6,047	\$	\$ 6,047
Repurchase Agreements	364,451	364,451	
Total	<u>\$370,498</u>	<u>\$364,451</u>	<u>\$ 6,047</u>

The following table presents TRS' investments by investment type, fair value and the effective weighted duration rate as of Aug. 31, 2012.

Investments Exposed to Interest Rate Risk		
August 31, 2012		
TRS Investment Type	Fair Value (In Thousands)	Effective Weighted Duration Rate
U.S. Government Obligations	\$ 13,536,791	16.16
U.S. Government STRIPS and TIPS	5,851,985	6.06
U.S. Government Agency Obligations	20,215	4.18
Asset and Mortgage Backed Obligations	525,103	2.67
Corporate Obligations	53,493	9.29
International Government Obligations	80,936	2.14
International Corporate Obligations	11,069	9.78
Total	<u>\$ 20,079,592</u>	<u>12.77</u>

As of Aug. 31, 2012, ERS' investments by investment type, fair value and the modified duration rate were as follows:

Investments Exposed to Interest Rate Risk				
August 31, 2012				
ERS Investment Type	Fair Value (In Thousands)		Modified Duration Rate	
	Fiduciary Funds	Proprietary Fund	Fiduciary Funds	Proprietary Fund
U.S. Treasury Securities	\$ 3,840,480	\$380,052	4.64	2.51
U.S. Government Agency Obligations	1,337,784	49,471	2.79	2.79
Corporate Obligations	1,758,551	58,012	6.42	6.56
Corporate Asset and Mortgage Backed Securities	162,579	6,012	3.04	3.04
International Obligations	723,327	25,951	3.43	3.38
Money Market and Bond Fund	185,206	135,800	0.08	0.08
Municipal Funds	60,285	2,229	13.08	13.08
Total	<u>\$8,068,212</u>	<u>\$657,527</u>	<u>4.54</u>	<u>2.46</u>

As of Aug. 31, 2012, UT's investments by investment type, fair value and the modified duration rate were as follows:

Investments Exposed to Interest Rate Risk		
August 31, 2012		
UT Investment Type	Fair Value (In Thousands)	Modified Duration Rate
INVESTMENTS IN SECURITIES		
U.S. Government Guaranteed:		
U.S. Treasury Bonds and Notes	\$ 292,324	7.81
U.S. Treasury Strips	558	1.73
U.S. Treasury Bills	65,054	0.54
U.S. Treasury Inflation Protected	2,703	6.48
U.S. Agency Asset Backed	5,940	4.36
Total U.S. Government Guaranteed	<u>366,579</u>	<u>6.45</u>
U.S. Government Non-Guaranteed:		
U.S. Agency	5,756	3.82
U.S. Agency Asset Backed	237,710	2.99
Total U.S. Government Non-Guaranteed	<u>243,466</u>	<u>3.01</u>
Total U.S. Government	<u>610,045</u>	<u>5.07</u>
Corporate Obligations:		
Domestic	548,204	6.33
Foreign	368,027	5.47
Total Corporate Obligations	<u>916,231</u>	<u>5.99</u>
Foreign Government and Provincial Obligations	1,550,769	6.32
Other Debt Securities	47,556	12.86
Total Debt Securities	<u>3,124,601</u>	<u>6.08</u>
Other Investment Funds – Debt	23,019	6.90
Convertible Stock	1,021	29.03
Fixed Income Money Market Funds	2,452,634	0.04
Total	<u>\$5,601,275</u>	<u>3.44</u>

Investments with Fair Values Highly Sensitive to Interest Rate Changes

In accordance with the applicable investment policies, TRS, PSF, ERS and UT may invest in asset backed and mortgage backed obligations. Mortgage backed obligations are subject to early principal payment in a period of declining interest rates. The resultant reduction in expected cash flows will affect the fair value of these securities. Asset backed obligations are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligee of the underlying assets in periods of declining interest

rates could reduce or eliminate the stream of income that would have been received. As of Aug. 31, 2012, the fair value of investments in asset and mortgage backed obligations highly sensitive to interest rate changes for TRS, PSF, ERS and UT was \$3.2 billion.

Reverse Repurchase Agreements

Investments in reverse repurchase agreements by the Treasury and the Trust Company are permitted by statute. A reverse repurchase agreement consists of a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. Sale proceeds are invested in securities or repurchase agreements that mature at or almost at the same time as the reverse repurchase agreement. Proceeds from the matured securities are used to liquidate the agreement resulting in a matched position. With a matched position there is minimal market risk because the seller-borrower will hold the securities to maturity and liquidate them at face value. In the event of default on a reverse repurchase agreement, the Treasury would potentially suffer a loss. The loss occurs if the cash received does not exceed the fair value of the securities underlying the reverse repurchase agreements. The amount of the loss would equal the difference between the fair value plus accrued interest of the underlying securities and the agreement price plus accrued interest. To minimize the risk of default, all securities backing reverse repurchase agreements are held by the Federal Reserve Bank in the state's name.

As of Aug. 31, 2012, the Treasury's aggregate amount of reverse repurchase agreement obligations was \$66.3 million, including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was \$66.4 million. During fiscal 2012, the credit exposure was \$60 thousand.

Securities Lending

ERS, TRS, PSF, UT, the Veterans Land Board (VLB) and the Texas Prepaid Higher Education Tuition Board (TPHETB) participate in securities lending programs as authorized by state statute. ERS, TRS, PSF and UT established their own separately managed securities lending programs. VLB participates in collateral investment pools that commingle the cash collateral of several entities. Under these programs, the governmental entities transfer securities to an independent broker or dealer in exchange for collateral in the form of cash, governmental securities or bank letters of credit. In addition, PSF may receive collateral in the form of other assets that it specifically agrees to with its lending agent. ERS, TRS, UT and VLB receive collateral equal to 102 percent of the value of domestic securities lent and 105 percent for international securities. PSF receives collateral in an amount of 102 percent of the fair value plus accrued income for domestic corporate securities and 105 percent of the fair value plus accrued income for foreign securities. However, the required percentage is 102 percent for foreign securities denominated and payable in U.S. dollars. TPHETB receives

collateral of 102 percent of the value of domestic securities lent plus accrued interest and 105 percent plus accrued interest for foreign securities. There is a simultaneous agreement to return the collateral for the same securities in the future.

The custodians of the securities are the security lending agents. The securities lending contracts do not allow the governmental entities to pledge or sell collateral securities unless the borrower defaults. The lending agents are required to indemnify ERS, TRS, PSF, UT, VLB and TPHETB if the borrowers fail to return the securities.

TRS, VLB, PSF and TPHETB loans are terminable at will. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses and no recoveries of prior period losses during the year.

Differences between the fair value of the invested cash collateral and the cash collateral liability are recorded as part of the net increase/(decrease) in fair value of investments. There is no credit risk exposure to the lender when the fair value of the security on loan is less than the cash collateral liability. The overall securities lending activity as of Aug. 31, 2012, is summarized below.

Securities Lending Activity Summary

August 31, 2012 (Amounts in Thousands)

Entity	Fair Value of Securities on Loan	Non-Cash Collateral*	Cash Collateral Liability (Obligation/ Securities Lending)	Fair Value of Invested Cash Collateral (Securities Lending Collateral)	Net Increase/ (Decrease) In Fair Value
TRS	\$ 22,287,014	\$ 1,130,387	\$ 21,535,537	\$ 21,557,057	\$ 21,520
ERS	1,379,139		1,416,923	1,417,088	165
PSF	1,588,075	1,163,039	470,169	370,498	(99,671)
UT* **	663,607		511,401	511,401	
VLB**	83,855		85,056	85,056	
TPHETB**	94,884	90	96,653	96,653	
Total	<u>\$ 26,096,574</u>	<u>\$ 2,293,516</u>	<u>\$ 24,115,739</u>	<u>\$ 24,037,753</u>	<u>\$ (77,986)</u>

* Non-cash collateral received for securities lending activities is not recorded as assets because the underlying investments remain under the control of the borrower, except in the event of default.

** UT, VLB and TPHETB did not experience any net change in fair value because the cash collateral pools they participated in were maintained at amortized cost as of Aug. 31, 2012.

Investment Derivative Instruments

Derivatives are financial instruments (securities or contracts) whose value is linked to or “derived” from changes in interest rates, currency rates and stock and commodity prices. These securities or contracts serve as components of the investment strategies of certain state agencies, public employee retirement systems and institutions of higher education. Those investment strategies are utilized to manage and reduce the risk of the overall investment portfolio. Investment derivative levels and types are monitored to ensure that portfolio derivatives are consistent with the intended purpose and at the appropriate level.

All investment derivative instruments are reported at fair value on the statement of net position and the statement of fiduciary net position. The changes in the fair value of investment derivative instruments are reported as investment revenue in the operating statements. As of Aug. 31, 2012, TRS, PSF, UT, Texas A&M University System (A&M), VLB and the Texas Department of Transportation (TxDOT) held investment derivatives (forwards, futures, options and swaps).

Forward foreign currency exchange contracts are used for the purchase or sale of a specific foreign currency at a fixed quantity and price on a future date as a hedge against either specific transactions or portfolio positions. The contracts are in the currency native to the security transactions for settlement date and are marked-to-market daily with the change in market value recorded as an unrealized gain or loss. Realized gain or loss is recorded at the closing of the contract. Risks associated with such contracts include the potential inability of the counterparties to meet the terms of their contracts and unanticipated movements in currency exchange rates.

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price and date. Futures contracts are used to facilitate various trading strategies, primarily as a tool to hedge against the increase

or decrease of market exposure to various asset classes. Upon entering into a futures contract, an initial margin deposit is pledged to the broker equal to a percentage of the contract amount. Contracts are marked-to-market, settled in cash with the broker and recorded as an unrealized gain or loss daily. The daily gain or loss difference is referred to as the daily variation margin. Realized gain or loss is recorded at the closing of the contract. Holders of futures contracts look to the exchange for performance under the contract and not to the entity holding the offsetting futures. Accordingly, the amount of risk posed by the nonperformance of counterparties to futures contracts is minimal. Risks due to movements in the value of the futures contracts and the inability to close out futures contracts due to a non-liquid secondary market remain.

Options are used to alter market (systematic) exposure without trading the underlying cash market securities and to hedge and control risks so the actual risk/return profile is more closely aligned with the target risk/return profile. Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise the option. With written options, market risk arises from an unfavorable change in the price of the derivative instrument, security or currency underlying the written option.

Swaps represent contracts that obligate two counterparties to exchange a series of cash flows at specified intervals. The ultimate gain or loss depends upon the price or rate at which the underlying financial instrument of the swap is valued at the settlement date. Swaps are used to manage risk and enhance returns. As of Aug. 31, 2012, swap investments were interest rate, credit default, commodity, equity and total return swaps.

UT, VLB and TxDOT invested in pay-variable, receive-variable and pay-fixed, receive-variable interest

rate swap agreements that are reported as investment derivatives because they are ineffective hedges.

Foreign Currency Risk: TRS, UT and A&M have exposure to investment foreign currency risk in forwards, futures, options and swaps derivative investments. As of Aug. 31, 2012, derivative investments exposed to foreign currency risk were as follows:

Derivative Investments Exposed to Foreign Currency Risk					
August 31, 2012 (Amounts in Thousands)					
	Governmental and Business-Type Activities				Fiduciary Funds
	Swaps	Options	Futures	Forwards	Swaps
Australian Dollar	\$ 104	\$ (4,180)	\$ (139)	\$ (4,594)	\$
Brazilian Real			(2,504)	(2,559)	
British Pound	(476)			663	186
Canadian Dollar			(21)	157	43
Chilean Peso				857	
Chinese Yuan				(1,507)	
Columbian Peso				78	
Danish Krone				31	
Euro	1		20	(3,225)	4,985
Hong Kong Dollar					29
Indian Rupee				3,658	
Japanese Yen	(2,457)		35	(3,568)	(55)
Malaysian Ringgit				52	
Mexican Peso	1,554			(768)	
New Zealand Dollar				(598)	
Norwegian Kroner				8	
Polish Zloty				(194)	
Singapore Dollar				6	
South African Rand				(27)	
South Korean Won		(16,960)		1,149	(63)
Swedish Krona				214	468
Swiss Franc				(1,093)	
Taiwan Dollar				(872)	
Thai Baht				16	
Turkish Lira				(594)	
Total	<u>\$ (1,274)</u>	<u>\$ (21,140)</u>	<u>\$ (2,609)</u>	<u>\$ (12,710)</u>	<u>\$ 5,593</u>

Credit Risk: TRS and UT instituted policies to mitigate counterparty credit risk for investment derivatives by having master netting agreements and collateral posting arrangements. TRS and UT negotiated thresholds or limits for each counterparty above which collateral must be posted.

TRS' investment policy limits the net market value of all over-the-counter derivative positions, less collat-

eral posted, to an amount not exceeding \$500 million for any individual counterparty.

UT requires collateral to be posted on a daily basis by the counterparty to cover exposure to a counterparty above the limits set in place by the master netting agreement. Collateral posted by counterparties is held by UT in one of its accounts at their custodian bank.

TxDOT's basis swap agreements contain provisions for collateral posting by counterparties in the event of a credit rating downgrade. Acceptable forms of collateral include cash in the form of U.S. dollars, negotiable debt obligations issued by the U.S. Treasury Department and agency securities. Agency securities include negotiable debt obligations fully guaranteed as to both principal and interest by the Federal National Mortgage Association, the Government National Mortgage Association or the Federal Home Loan Mortgage Corporation.

The aggregate fair value of investment derivative instruments in asset positions as of Aug. 31, 2012, was \$193.2 million. The investment derivative instruments were executed with counterparties that had a credit rating of no less than A using the Standard & Poor's rating scale. This represents the maximum amount of loss that would have been recognized as of Aug. 31, 2012, if all counterparties failed to perform as contracted. This maximum exposure is reduced by \$43.1 million of collateral held and by \$81.8

million in liabilities included in netting arrangements with those counterparties, resulting in a \$68.3 million net exposure of investment derivative instruments to credit risk.

Interest Rate Risk: TRS, UT, VLB and TxDOT are exposed to interest rate risk on swap transactions. Investments in pay-variable, receive-variable interest rate swaps ranged from payment of 100 to 131.25 percent of Securities Industry and Financial Markets Association

(SIFMA) and receipt of 67 to 103 percent of one month to 10-year London Interbank Offered Rate (LIBOR).

Investments in pay-variable, receive-fixed interest rate swaps paid a fixed rate of 0.25 percent and received the 6-month LIBOR at the foreign currency rate. Investments in pay-fixed, receive-variable interest rate swaps ranged from receipt of various foreign currency rates and payment of 0.3 to 6.96 percent. As of Aug. 31, 2012, the investment maturities for the state's swap contracts exposed to interest rate risk were as follows:

Derivative Investments Exposed to Interest Rate Risk

August 31, 2012 (Amounts in Thousands)

Investment Type	Fair Value	Investment Maturities (in years)				
		Less Than 1	1-5	6-10	11-15	More than 15
Interest Rate Swaps	\$54,482	\$21,534	\$(401)	\$276	\$792	\$32,281

Investment Funds

Investment funds include hedge fund pools, private investment pools, public market funds and other alternative investments managed by external investment managers. Risks associated with these investments include investment manager risk, liquidity risk, market risk and leverage risk. Investment manager risk is substantially dependent upon key investment managers; therefore, the loss of those individuals may adversely impact the return on investment. Also, some investment funds are not subject to regulatory controls. Liquidity may be limited due to imposed lock-up periods, with penalties to redeem units or restricting redemption of shares until a certain period of time has elapsed. Investment funds may employ sophisticated investment strategies using leverage, which could result in the loss of invested capital. As of Aug. 31, 2012, the fair value of various investment funds was \$57 billion.

NOTE 4

Short-Term Debt

On Aug. 23, 2011 (with an issue date of Sept. 1, 2011), \$9.8 billion of the state of Texas Tax and Revenue Anticipation Notes, Series 2011, were sold to coordinate the cash flow of the state for fiscal 2012. Issuance of these notes enhanced the state's ability to make timely payment of expenditures payable from the general revenue fund.

The Series 2011 notes were repaid during fiscal 2012, bore interest at 2.5 percent and were priced to yield 0.273 percent.

On Aug. 21, 2012, the Comptroller's office sold approximately \$9.8 billion of the state of Texas Tax and Revenue Anticipation Notes, Series 2012, with an issue date of Aug. 30, 2012, and a maturity date of Aug. 30, 2013. The notes bear interest at 2.5 percent and were priced to yield 0.225 percent. They are not subject to redemption prior to maturity. On Aug. 21, 2012, good faith funds in the amount of \$98 million were received. The balance of the \$9.8 billion was received on Aug. 30, 2012.

The state also sold \$500 million in commercial paper for the purpose of coordinating the cash flow of the state for fiscal 2012. Issuance of the commercial paper also enhanced the state's ability to make timely payments of expenditures payable from the general revenue fund.

Short-term debt activity for the fiscal year ended Aug. 31, 2012, is presented below.

Short-Term Debt

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Balance 9/1/11	Issued	Redeemed	Balance 8/31/12
Tax and Revenue Anticipation Notes	\$	\$19,600,000	\$ 9,800,000	\$9,800,000
Commercial Paper		500,000	500,000	
	<u>\$ 0</u>	<u>\$20,100,000</u>	<u>\$10,300,000</u>	<u>\$9,800,000</u>

NOTE 5

Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended Aug. 31, 2012, is presented in the table below.

Long-Term Liabilities Activity

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Balance 9/1/11	Restatement	Additions	Reductions	Balance 8/31/12	Amounts Due Within One Year	Amounts Due Thereafter
GOVERNMENTAL ACTIVITIES							
Claims and Judgments	\$ 147,973	\$	\$ 48,079	\$ 62,827	\$ 133,225	\$ 50,183	\$ 83,042
Capital Lease Obligations	14,177		2,867	5,341	11,703	5,365	6,338
Employees' Compensable Leave	718,842		773,481	759,427	732,896	439,322	293,574
Notes and Loans Payable	1,149,953		302,515 *	71,666	1,380,802	170,932	1,209,870
General Obligation Bonds Payable	11,519,544		188,956 *	394,175	11,314,325	383,782	10,930,543
Revenue Bonds Payable	5,455,607	(1,004,165)	(3,894) *	170,650	4,276,898	178,378	4,098,520
Pollution Remediation Obligation	263,806		53,111	69,533	247,384	51,876	195,508
Governmental Activities Long-Term Liabilities	<u>\$ 19,269,902</u>	<u>\$ (1,004,165)</u>	<u>\$ 1,365,115</u>	<u>\$ 1,533,619</u>	<u>\$ 18,097,233</u>	<u>\$ 1,279,838</u>	<u>\$ 16,817,395</u>
BUSINESS-TYPE ACTIVITIES							
Claims and Judgments	\$ 60,230	\$	\$ 20,569	\$ 19,743	\$ 61,056	\$ 16,708	\$ 44,348
Capital Lease Obligations	20,484		3,946	2,792	21,638	3,514	18,124
Employees' Compensable Leave	684,427		224,523	203,707	705,243	364,698	340,545
Notes and Loans Payable	2,005,719		980,772 *	911,522	2,074,969	673,538	1,401,431
General Obligation Bonds Payable	2,955,651		414,460 *	140,562	3,229,549	129,075	3,100,474
Revenue Bonds Payable	18,766,862		1,607,012 *	1,340,405	19,033,469	2,165,794	16,867,675
Pollution Remediation Obligation	20			20			
Liabilities Payable From Restricted Assets	3,561,533		270,552	331,598	3,500,487	541,137	2,959,350
Business-Type Activities Long-Term Liabilities	<u>\$ 28,054,926</u>	<u>\$ 0</u>	<u>\$ 3,521,834</u>	<u>\$ 2,950,349</u>	<u>\$ 28,626,411</u>	<u>\$ 3,894,464</u>	<u>\$ 24,731,947</u>
COMPONENT UNITS							
Capital Lease Obligations	\$ 143	\$	\$	\$ 33	\$ 110	\$ 54	\$ 56
Employees' Compensable Leave	5,685		2,650	2,450	5,885	3,701	2,184
Notes and Loans Payable	73,206		2,003 *	21,127	54,082	9,570	44,512
Revenue Bonds Payable	336,509		31,459 *	89,049	278,919	25,053	253,866
Liabilities Payable From Restricted Assets	50,080			50,080			
Component Units Long-Term Liabilities	<u>\$ 465,623</u>	<u>\$ 0</u>	<u>\$ 36,112</u>	<u>\$ 162,739</u>	<u>\$ 338,996</u>	<u>\$ 38,378</u>	<u>\$ 300,618</u>

* Includes current year amortization of accretion, premiums and discounts.

Notes and Loans Payable Debt Service Requirements Governmental Activities

(Amounts in Thousands)

Year	Principal	Interest	Total
2013	\$ 170,932	\$ 12,469	\$ 183,401
2014	173,315	11,495	184,810
2015	197,875	10,527	208,402
2016	205,217	11,336	216,553
2017	202,173	10,324	212,497
2018 - 2022	784,492	38,184	822,676
2023 - 2027	143,901	19,930	163,831
2028 - 2032	43,945	5,891	49,836
Total Requirements	1,921,850	120,156	2,042,006
Unamortized Accretion	(541,048)		(541,048)
Total Requirements	<u>\$ 1,380,802</u>	<u>\$ 120,156</u>	<u>\$ 1,500,958</u>

Notes and Loans Payable Debt Service Requirements Business-Type Activities

(Amounts in Thousands)

Year	Principal	Interest	Total
2013	\$ 673,538	\$ 42,326	\$ 715,864
2014	14,110	42,925	57,035
2015	13,134	43,997	57,131
2016	29,327	50,413	79,740
2017	12,700	51,512	64,212
2018 - 2022	96,268	292,112	388,380
2023 - 2027	119,961	349,157	469,118
2028 - 2032	228,726	326,966	555,692
2033 - 2037	328,776	262,278	591,054
2038 - 2042	740,233	137,526	877,759
Total Requirements	2,256,773	1,599,212	3,855,985
Unamortized Accretion	(181,804)		(181,804)
Total Requirements	<u>\$ 2,074,969</u>	<u>\$ 1,599,212</u>	<u>\$ 3,674,181</u>

Notes and Loans Payable Debt Service Requirements Component Units

(Amounts in Thousands)

Year	Principal	Interest	Total
2013	\$ 9,570	\$ 286	\$ 9,856
2014	3,043	355	3,398
2015	2,927	309	3,236
2016	4,531	418	4,949
2017	6,058	371	6,429
2018 - 2022	26,693	974	27,667
2023 - 2027	1,260	120	1,380
Total Requirements	<u>\$ 54,082</u>	<u>\$ 2,833</u>	<u>\$ 56,915</u>

Notes and loans payable consist of amounts used to purchase capital equipment. Other uses include the acquisition, construction and renovation of other capital assets, including the interim financing of higher education projects; software/database acquisition and development; refinancing of existing debt; and the funding of agency specific missions such as economic development projects and pest eradication programs. The Texas Department of Transportation (TxDOT) entered into pass-through toll agreements with local entities as a means of financing state highway capital improvements and maintenance. In fiscal 2012, TxDOT recognized \$125.4 million as a long-term liability for pass-through toll payables related to highway projects constructed under pass-through financing agreements. See Note 15 for additional details. Debt service requirements for notes and loans payable in the long-term liabilities are presented in the tables to the left.

General obligation bonds and revenue bonds are described in detail in Note 6. Certain revenue bonds related to pass-through activities amounting to \$1 billion recorded in prior years were determined to meet the definition of conduit debt, which should not be recorded on the balance sheet and instead be disclosed in the notes. A restatement was recorded to remove the amount from the financial statements.

Claims and judgments are payments on behalf of the state, its agencies and employees for various legal proceedings, self-insurance and workers' compensation claims. Tort claims are covered under the Texas Tort Claims Act. Numerous miscellaneous claims are covered under the Miscellaneous Claims Act for legal liabilities against the state for which no appropriation otherwise exists. Individual claims above \$50 thousand or numerous separate claims from the same individual or entity that in total exceed \$50 thousand must be approved by the Legislature before being paid. Claims are paid from one or more of approximately 50 governmental funds. Workers' compensation claims are usually paid from the

same funding source(s) from which the employee's salary or wage compensation was paid.

Employees' compensable leave is the state's liability for all unused vacation and unpaid overtime accrued by employees, payable as severance pay under specified conditions. This obligation is paid only at the time of termination, usually from the same funding source(s) from which the employee's salary or wage compensation was paid.

Note 8 provides details on capital lease obligations.

Long-term liabilities associated with the acquisition of restricted assets or long-term liabilities that will be liquidated with restricted assets are classified as liabilities payable from restricted assets.

Pollution Remediation Obligations

Pollution remediation obligations are recognized in the financial statements for existing pollution sites after the occurrence of one or more of the following events:

- The pollution creates an imminent endangerment to public health or the environment.
- The state is in violation of a pollution prevention-related permit or license.
- The state is named as a potentially responsible party by a regulator.
- The state is named in a lawsuit that compels it to participate in remediation.
- The state has commenced, or legally obligated itself to commence, cleanup activities.

Under applicable accounting standards, estimated expected recoveries from insurance policies and other responsible parties that are not yet realizable in the financial statements reduce the measurement of the pollution remediation obligation liability. A realized or realizable recovery involves the acknowledgment or recognition by the third party of its responsibility. Realized or realizable recoveries are recognized as assets. Recoveries from the federal government are considered

nonexchange transactions and do not reduce the liability measurement, but are recognized separately as revenues when realizable. As of Aug. 31, 2012, the amount expected to offset state remediation costs could not reasonably be estimated.

Federal Regulatory Cleanup Requirements: Pollution remediation obligations are associated with projects initiated under federal regulatory requirements. Applicable federal laws and regulations include the Comprehensive Environmental Response, Compensation and Liability Act (also known as Superfund), the National Emissions Standards for Hazardous Air Pollutants and U.S. Environmental Protection Agency Class V Wells regulations.

The Superfund obligation estimates are based on budgeted projects to cover necessary activities for the upcoming fiscal year, along with estimated costs for future years and phases, plus direct salaries and benefits. Other obligations are calculated based on contractor estimates or historical costs as applicable.

Federal reimbursements are expected to offset a portion of these expected costs. The potential for changes due to price increases or reductions, technology or applicable laws or regulations was incorporated into these estimates.

State Regulatory Cleanup Requirements: Other pollution remediation obligations are associated with cleanups required under state of Texas law. The Texas Commission on Environmental Quality operates as a regulatory agency to ensure cleanups are conducted within applicable state laws and regulations contained in the Texas Administrative Code, Title 30; Texas Water Code; Texas Health and Safety Code; Texas Occupations Code; and Texas Natural Resources Code.

Other Pollution Remediation Activity: A remediation activities estimate for land owned by Texas Tech University in Carson County, Texas, remains pending as of Aug. 31, 2012.

NOTE 6

Bonded Indebtedness

DESCRIPTION OF BOND ISSUES

The state of Texas had 473 bond issues outstanding as of Aug. 31, 2012. During fiscal 2012 the state paid \$467.7 million from the general revenue fund for debt service.

Information on Bond Issuances

August 31, 2012

Description of Issue	Bond Issues Outstanding		Range of Interest Rates		Maturities		First Call Date
	Number	Amount (in Thousands)	Lowest	Highest	First	Last	
					Year	Year	
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds	71	\$ 13,564,472	0.25	6.07	1998	2045	07/01/03
Revenue Bonds	21	5,174,213	2.50	7.25	1991	2030	02/01/01
Governmental Activities Total	92	18,738,685					
BUSINESS-TYPE ACTIVITIES							
General Obligation Bonds	89	4,299,860	1.37	8.06	1995	2047	02/24/94
Revenue Bonds	276	24,809,839	0.30	15.00	1988	2047	05/04/95
Business-Type Activities Total	365	29,109,699					
COMPONENT UNITS							
Revenue Bonds	16	397,417	5.30	7.10	1986	2042	10/08/86
Total	473	\$ 48,245,801					

Changes in Bonds Payable

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Bonds Outstanding 9/1/11	Restatement	Bonds Issued*	Bonds Matured or Retired	Bonds Refunded	Bonds Outstanding 8/31/12	Due Within One Year
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds	\$ 11,519,544	\$	\$ 188,956	\$ 332,110	\$ 62,065	\$ 11,314,325	\$ 383,782
Revenue Bonds	5,455,607	(1,004,165)	(3,894)	170,650		4,276,898	178,378
Governmental Activities Total	16,975,151	(1,004,165)	185,062	502,760	62,065	15,591,223	562,160
BUSINESS-TYPE ACTIVITIES							
General Obligation Bonds	2,955,651		414,460	116,017	24,545	3,229,549	129,075
Revenue Bonds	18,766,862		1,607,012	637,628	702,777	19,033,469	2,165,794
Business-Type Activities Total	21,722,513	0	2,021,472	753,645	727,322	22,263,018	2,294,869
COMPONENT UNITS							
Revenue Bonds	336,509		31,459	29,849	59,200	278,919	25,053
Total	\$ 39,034,173	\$ (1,004,165)	\$ 2,237,993	\$ 1,286,254	\$ 848,587	\$ 38,133,160	\$ 2,882,082

* Includes current year amortization of accretion, premiums and discounts.

Debt Service Requirements

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES						
Year	General Obligation Bonds			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 358,015	\$ 503,449	\$ 861,464	\$ 172,015	\$ 203,458	\$ 375,473
2014	365,925	490,906	856,831	174,925	195,900	370,825
2015	394,755	477,311	872,066	162,130	188,155	350,285
2016	378,325	460,638	838,963	165,075	180,432	345,507
2017	339,855	444,667	784,522	167,305	172,609	339,914
2018 - 2022	1,736,260	1,989,122	3,725,382	883,005	737,704	1,620,709
2023 - 2027	1,914,750	1,565,792	3,480,542	1,450,740	470,823	1,921,563
2028 - 2032	2,046,490	1,088,346	3,134,836	1,013,145	106,121	1,119,266
2033 - 2037	2,217,085	603,321	2,820,406			
2038 - 2042	1,167,695	93,376	1,261,071			
2043 - 2047	45,000	260	45,260			
	10,964,155 *	7,717,188	18,681,343	4,188,340 *	2,255,202	6,443,542
Accretion	(15,098)		(15,098)	(1,952)		(1,952)
Premium	365,793		365,793	90,510		90,510
Discount	(525)		(525)			
Total	\$ 11,314,325	\$ 7,717,188	\$ 19,031,513	\$ 4,276,898	\$ 2,255,202	\$ 6,532,100
BUSINESS-TYPE ACTIVITIES						
Year	General Obligation Bonds			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 126,937	\$ 63,676	\$ 190,613	\$ 2,102,493	\$ 757,972	\$ 2,860,465
2014	142,835	61,203	204,038	716,670	728,091	1,444,761
2015	149,744	58,331	208,075	786,032	695,016	1,481,048
2016	148,882	55,479	204,361	829,022	658,228	1,487,250
2017	162,710	52,770	215,480	853,552	619,644	1,473,196
2018 - 2022	783,560	215,788	999,348	3,983,875	2,523,652	6,507,527
2023 - 2027	690,320	130,640	820,960	3,165,088	1,762,799	4,927,887
2028 - 2032	575,575	69,943	645,518	2,607,851	1,167,882	3,775,733
2033 - 2037	304,120	34,156	338,276	2,370,348	712,020	3,082,368
2038 - 2042	101,700	7,415	109,115	1,985,124	295,984	2,281,108
2043 - 2047	7,484	1,053	8,537	222,697	26,435	249,132
	3,193,867 *	750,454	3,944,321	19,622,752 *	9,947,723	29,570,475
Accretion	(593)		(593)	(1,202,156)		(1,202,156)
Premium	36,275		36,275	686,881		686,881
Discount				(16,150)		(16,150)
Loss on Refunding				(57,858)		(57,858)
Total	\$ 3,229,549	\$ 750,454	\$ 3,980,003	\$ 19,033,469	\$ 9,947,723	\$ 28,981,192
COMPONENT UNITS						
Year	Revenue Bonds					
	Principal	Interest	Total			
2013	\$ 24,176	\$ 8,324	\$ 32,500			
2014	3,909	10,867	14,776			
2015	4,134	10,690	14,824			
2016	4,202	10,498	14,700			
2017	4,297	10,300	14,597			
2018 - 2022	26,335	47,944	74,279			
2023 - 2027	55,505	40,007	95,512			
2028 - 2032	49,737	29,190	78,927			
2033 - 2037	69,588	15,198	84,786			
2038 - 2042	27,974	2,269	30,243			
	269,857 *	185,287	455,144			
Premium	9,062		9,062			
Total	\$ 278,919	\$ 185,287	\$ 464,206			

* Includes accretion adjustment on deep discount bonds, premium, discount and/or loss on refunding.

General Obligation Bonds – General Comments

The Texas Constitution authorizes the state to issue several types of general obligation bonds. Each issue of general obligation bonds is designed to be self-supporting from a primary revenue source related to the program being financed, except for the general obligation bonds of the Texas Public Finance Authority, the Water Development Board, the Constitutional Appropriation Bonds and the Texas Transportation Commission highway improvement bonds.

The purpose and primary pledged revenue sources of each type of general obligation bond are summarized below.

The **Texas Higher Education Coordinating Board** issues bonds for educational loans to eligible Texas college students. Payments received on the loan contracts are applied to debt service on the bonds.

The **Texas Parks and Wildlife Department** issues bonds to finance the acquisition and development of state park sites. Park entrance fees, sporting goods sales tax revenue and investment earnings are applied to debt service on the bonds.

The **Texas Public Finance Authority** issues general obligation bonds to finance the acquisition, construction or renovation of buildings for the use of state agencies and institutions of higher education and to fund cancer research. The Texas Public Finance Authority is also authorized to issue general obligation bonds to assist local government economic development projects to enhance the value of military facilities. The bonds are payable from state appropriations.

The **Texas Water Development Board** issues bonds to provide financial assistance to political subdivisions for water conservation and development, water quality enhancement projects and flood control projects. Debt service payments are funded by principal and interest received on loans to political subdivisions, repayments of purchased water storage contracts and earnings on temporary investments.

The **Veterans Land Board** issues bonds to provide funds to loan to eligible Texas veterans for the purchase of land, housing or home improvements. Principal and interest payments on loans, plus investment earnings, are the primary source of repayment for bonds.

The **Texas Department of Transportation**, through the Texas mobility fund, issues general obligation bonds to pay or reimburse the state highway fund for the payment of part of the costs of constructing, reconstructing, acquiring and expanding state highways. In addition, the bond proceeds provide funds for participation by the state in the payment of part of the costs of constructing and providing certain publicly owned toll roads and other public transportation projects. Sources of pledged revenue for the Texas mobility fund include the United We Stand license plate fees, investment income, motor vehicle inspection fees, driver record information fees, driver license fees and certificate of title fees. Debt service for highway improvement bonds is provided by the state's general revenue.

Constitutional Appropriation Bonds are issued in support of the construction programs of institutions of higher education not benefiting from the permanent university fund, which is dedicated to the University of Texas System and Texas A&M University System. Debt service payments on bonds issued are limited to the \$131.3 million in general revenue funds available for debt service each year.

The **Economic Development and Tourism Office**, a division within the Office of the Governor, issues general obligation bonds to provide financial assistance to export businesses, promote domestic business development, provide loans to finance the commercialization of new and improved products and processes, and provide loans to defense-related communities for economic development projects. Debt service payments are funded from revenues of the Economic Development and Tourism Office, primarily from the repayment of loans and the disposition of debt instruments.

General Obligation Bonds – Authorized But Unissued

The Texas Constitution limits the amount of bonds that can be issued in any of the general obligation categories. As of Aug. 31, 2012, the amounts of general obligation bonds, other than Constitutional Appropriation Bonds, authorized but unissued, are presented in the table below.

General Obligation Bonds Authorized But Unissued

(Amounts in Thousands)

SELF-SUPPORTING

Texas Agricultural Finance Authority Bonds	\$ 46,000
Farm and Ranch Loan Bonds	475,000
Veterans Land and Housing Bonds	1,873,372
Water Development Bonds	6,499,820
College Student Loan Bonds	1,310,390
Texas Military Value Revolving Loan Fund	200,405
Total	<u>10,404,987</u>

NOT SELF-SUPPORTING

Agricultural Water Conservation Bonds	164,840
Texas Public Finance Authority Bonds	3,084,517
Transportation Commission Transportation Bonds	4,000,709
Water Development Bonds -	
Economically Distressed Areas Program	186,036
Water Infrastructure Fund Program	152,134
Total	<u>7,588,236</u>

Total General Obligation Bonds	<u><u>\$ 17,993,223</u></u>
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Revenue Bonds – General Comments

Each series of revenue bonds is backed by the pledged revenue sources and restricted funds specified in the bond resolution. The purpose and primary pledged revenue sources of each type of revenue bond are summarized below.

Self-Supporting

The **Veterans Land Board** issues bonds to assist in the construction of skilled nursing care facilities for veterans and to make land and home mortgage loans to veterans. The bonds are limited and special revenue obligations payable solely from the income, revenues, receipts and collateral pledged under the related trust indentures.

The **Texas Department of Housing and Community Affairs** issues bonds to assist in financing the purchase of homes by, or the construction of rental housing for, families with very low to moderate incomes and persons with special needs. Loan payments provide the revenues for debt service payments. The agency also issued taxable bonds for investment in collateralized mortgage obligations of federal agencies, to finance mortgage loans, and to carry out financial assistance programs.

The **Texas Water Development Board** issues bonds for the Texas water resources fund and the state water pollution control revolving fund. The proceeds are used to provide financial assistance to political subdivisions for water quality enhancement purposes. Principal and interest repayments from political subdivision loans are pledged for debt service requirements of the bonds.

University of Texas System and Texas A&M University System issue **Permanent University Fund** bonds to build, equip or buy buildings or other permanent improvements. The Texas Constitution limits each system's permanent university fund debt to an amount not to exceed 20 percent and 10 percent, respectively, of the cost value of permanent university fund assets, excluding real estate. Revenue from investments of the permanent university fund is pledged to secure the payment of principal and interest. The cost value of permanent university fund assets as of Aug. 31, 2012, excluding real estate, was \$11.8 billion. A comparison between the legal debt limits and the actual bonds outstanding at that date is presented below.

Permanent University Fund Bonds

(Amounts in Thousands)

	Legal Debt Limits	Actual Bonds Payable	Authorized But Unissued
University of Texas System	\$ 2,356,349	\$ 1,431,030	\$ 925,319
Texas A&M University System	1,178,174	730,295	447,879
Total	<u><u>\$ 3,534,523</u></u>	<u><u>\$ 2,161,325</u></u>	<u><u>\$ 1,373,198</u></u>

Miscellaneous College and University Revenue Bonds are issued to provide funds to acquire, construct, improve, enlarge and equip property, buildings, structures or facilities. The revenue bonds issued by each institution's governing board are secured by the pledged revenue of the respective institutions and are not an obligation of the state of Texas.

The Office of the Governor is the oversight agency for the **Texas Small Business Industrial Development Corporation**, a discretely presented component unit of the state. The Texas Small Business Industrial Development Corporation bond program provides financing to state and local governments and to businesses and non-profit corporations for the purchase of land, facilities and equipment for economic development. The bonds are not an obligation of the state and are payable from the repayment of loans and investment earnings on the bond proceeds.

The **Texas Water Resources Finance Authority**, a discretely presented component unit of the state, issues bonds to purchase the majority of existing political subdivision bonds including those held by the Texas Water Development Board. Principal and interest from political subdivision bonds are pledged for debt service requirements of the bonds.

The **Texas Department of Transportation (TxDOT)** issues revenue bonds to finance state highway improvement projects. Pledged revenues include all revenues deposited to the credit of the state highway fund, including dedicated registration fees, dedicated taxes, dedicated federal revenues, amounts collected or received pursuant to other state highway fund revenue laws and any interest or earnings from the investment of these funds.

The **Texas Department of Transportation Turnpike Authority**, a division within TxDOT, issued bonds to pay a portion of the costs of planning, designing, engineering, developing and constructing the initial phase of the Central Texas Turnpike System located in

the greater city of Austin metropolitan area in Travis and Williamson counties. The bond obligations are payable from and secured solely by a first lien on and pledge of the trust estate.

The **Texas Workforce Commission** issued revenue bonds to fund the workers' compensation insurance fund. The bond obligations are secured by a special obligation assessment imposed on Texas employers.

Non Self-Supporting

The following revenue bonds are supported by pledged lease or rental revenue derived from contracts with other state agencies, which in turn comes from legislative appropriations.

The **Adjutant General's Department** assumed the Texas Military Facilities Commission's responsibilities on Sept. 1, 2007. The Texas Military Facilities Commission's title to facilities, rental and other income pledged to the bonds was transferred to the Texas Public Finance Authority. Title will pass to the Adjutant General's Department upon final discharge of all bond obligations. Bonds are issued for the construction, expansion and renovation of armories. The bonds are payable from certain pledged revenues, primarily rentals from the Adjutant General's Department. As of Aug. 31, 2012, the bond obligations were still outstanding.

The **Texas Public Finance Authority** issues bonds to finance the acquisition of real property and to construct, equip or renovate buildings for the use of state agencies and institutions of higher education. The bonds are payable from specified pledged revenues, collected primarily from occupant-agency rentals.

The **Texas Parks and Wildlife Department** issues bonds for infrastructure repairs and construction. The bonds are payable from rent payments, funded by state appropriations, made by the Texas Parks and Wildlife Department to the Texas Public Finance Authority.

Pledged Future Revenues

Pledged revenues are those specific revenues that are formally committed to directly secure revenue bonds. The table below provides information on pledged revenue and pledged future revenue for the state's revenue bonds.

Build America Bonds

The American Recovery and Reinvestment Act (ARRA) of 2009 was implemented in February 2009. As part of this federal legislation, a new bond program called Build America Bonds (BABs) was created. Authority to issue BABs expired on Dec. 31, 2010.

The Texas Department of Transportation, the University of Texas System, the Texas Public Finance Authority and the University of Houston System had \$3.5 billion, \$1.7 billion, \$181.8 million and \$80 million of Direct Payment BABs outstanding, respectively, as of Aug. 31, 2012.

Variable Rate Bonds

Nine state agencies had a total of 108 variable rate bond issues with outstanding balances as of Aug. 31, 2012. Most of the issues' interest rates reset every seven days. The remaining issues' interest rates reset daily or monthly. The potential volatility for related debt service increases with these interest rate reset provisions.

Pledged Future Revenue

(Amounts in Thousands)

	General Obligation Bonds		Revenue Bonds	
	Governmental	Governmental	Business-Type	Component
	Activities	Activities	Activities	Units
Pledged Revenue Required for Future Principal and Interest on Existing Bonds	\$ 11,393,870	\$ 6,443,542	\$ 29,570,476	\$455,145
Current Year Pledged Revenue	395,566	6,619,706	13,595,958	42,905
Current Year Principal and Interest Paid	337,922	381,344	1,464,461	40,529
Term of Commitment Year Ending August 31,	2039	2030	2047	2042
Percentage of Revenue Pledged	98%	100%	100%	100%

Demand Bonds

The Office of the Governor, the Veterans Land Board, the Texas Department of Housing and Community Affairs, the Texas Department of Transportation, the University of Houston System and the University of Texas System had outstanding demand bonds as of Aug. 31, 2012.

A bond holder may tender any of these bonds for repurchase prior to maturity, usually every seven days.

Any bonds so tendered will be purchased either by the proceeds of the remarketing of such bonds or, if not successfully remarketed, from amounts drawn under a letter of credit, liquidity agreement or standby purchase agreement of the respective agency until such time as the remarketing is finalized. As of Aug. 31, 2012, there were no purchased bonds held by liquidity providers under the terms of the various agreements. Details are presented in the tables below and on the following page.

Demand Bonds

August 31, 2012

	Number of				Principal Balance Outstanding (In Thousands)
	Demand Bond Issues	Standby Purchase Agreements	Letters of Credit	Other	
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds					
Office of the Governor	2		2 (c)		\$ 45,000
Texas Department of Transportation	2	3 (a)			229,130
Total	<u>4</u>	<u>3</u>	<u>2</u>	<u>0</u>	<u>274,130</u>
Revenue Bonds					
Texas Department of Transportation	1	1 (a)			100,000
Total	<u>1</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>100,000</u>
Governmental Activities Total	<u>5</u>	<u>4</u>	<u>2</u>	<u>0</u>	<u>\$ 374,130</u>
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds					
Veterans Land Board	45	45 (a)			\$ 1,771,425
Total	<u>45</u>	<u>45</u>	<u>0</u>	<u>0</u>	<u>1,771,425</u>
Revenue Bonds					
University of Texas System	4			4 (b)	1,344,315
Texas Department of Housing and Community Affairs	7	7 (a)			294,440
University of Houston System	1			1 (b)	8,390
Total	<u>12</u>	<u>7</u>	<u>0</u>	<u>5</u>	<u>1,647,145</u>
Business-Type Activities Total	<u>57</u>	<u>52</u>	<u>0</u>	<u>5</u>	<u>\$ 3,418,570</u>
COMPONENT UNITS					
Revenue Bonds					
Office of the Governor	1		1 (d)		\$ 20,000
Component Units Total	<u>1</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>\$ 20,000</u>

(a) – See Demand Bonds - Standby Purchase Agreements table.

(b) – In the event redeemed bonds are not remarketed, internal funds of the agency are available for redemption.

(c) – In the event redeemed bonds are not remarketed, a standby letter of credit with National Australia Bank will be used until remarketed.

(d) – In the event redeemed bonds are not remarketed, a letter of credit with Comerica will be used until remarketed.

Demand Bond – Standby Purchase Agreements

August 31, 2012

Counterparties	Number of Secured Bond Issue Agreements	Annual Liquidity Fee	Agreement Termination Date
Banco Bilbao Vizcaya Argentaria, S.A.	1	0.0875%	11/07/16
Bank of Tokyo-Mitsubishi UFJ	2	0.5600%	08/22/14
Bank of Tokyo-Mitsubishi UFJ	3	0.5250%	07/31/15
California Public Employees Retirement System	1	0.0500%	12/13/13
Comptroller of Public Accounts*	10	0.1200%	08/31/13
J.P. Morgan Chase Bank	1	0.6500%	03/07/14
J.P. Morgan Chase Bank	9	0.5600%	07/03/14
J.P. Morgan Chase Bank	3	0.5600%	09/19/14
Landesbank Hessen-Thüringen Girozentrale	5	0.5500%	06/30/13
Landesbank Hessen-Thüringen Girozentrale	4	0.5500%	12/31/15
Royal Bank of Canada	1	0.3000%	03/01/15
State Street Bank and Trust Company	1	0.0500%	12/13/13
State Street Bank and Trust Company	4	0.2950%	11/17/14
State Street Bank and Trust Company	4	0.2950%	04/03/15
State Street Bank and Trust Company	1	0.3750%	05/22/15
Sumitomo Mitsui Banking Corp	1	0.6000%	05/20/13
Sumitomo Mitsui Banking Corp	1	0.6000%	11/01/13
Sumitomo Mitsui Banking Corp	2	0.5000%	08/12/15
Wells Fargo Bank, NA	1	0.4900%	08/25/14
Wells Fargo Bank, NA	1	0.4900%	12/14/14
Total	56		

* Comptroller of Public Accounts Treasury Operations Division

Takeout agreements are used by the Texas Department of Transportation to provide an alternative debt instrument to replace any repurchased bonds that were not remarketed within the prescribed time constraints. The table below provides the estimated impact of such an event.

Demand Bonds – Takeout Agreement Provisions

August 31, 2012

	Estimated Debt Service (In Thousands)	Rate	Basis
GOVERNMENTAL ACTIVITIES			
General Obligation Bonds			
Texas Department of Transportation			
Texas Mobility Fund Bonds			
Series 2005B	\$ 90,998 (a)	10.00%	2% + the greater of: Bank Prime rate + 1.5%, Daily Fed Fds Rate + 2% or 8%
Series 2006B	158,500 (b)	4.25%	1% + the greater of: 0.5% + Daily Fed Fds Rate or Bank prime rate
Revenue Bonds			
Texas Department of Transportation			
State Highway Fund Revenue Bonds			
Series 2006B	108,750 (c)	5.25%	2% + the greater of: 0.5% + Daily Fed Fds Rate or Bank prime rate
Total	\$ 358,248		

(a) – Replacement debt is subject to semi-annual payments over three years starting the first day of the third month of that period.

(b) – Replacement debt is subject to semi-annual payments over three years starting the first day of the second month of that period.

(c) – Replacement debt is subject to semi-annual payments over three years starting the first day of the sixth month of that period.

Early Extinguishment of Debt

The following table presents early debt extinguishments in fiscal 2012. The source of funds used for the extinguishments included loan repayments and other available funds.

Early Extinguished Debt Issues

(Amounts in Thousands)

BUSINESS-TYPE ACTIVITIES

General Obligation Bonds	
Texas Water Development Board	\$ 23,015
Veterans Land Board	1,530
Revenue Bonds	
Texas Workforce Commission	168,095
Texas Department of Housing and Community Affairs	99,247
Texas Water Development Board	31,975
Veterans Land Board	21,795
University of Texas System	3,400
University of Houston System	880

Business-Type Activities Total	<u>\$ 349,937</u>
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COMPONENT UNITS

Revenue Bonds	
Office of the Governor	\$ 40,000
Component Units Total	<u>\$ 40,000</u>

Refunding

The table below summarizes bonds refunded during fiscal 2012 to lower interest rates or to restructure debt service requirements for cash management purposes.

Refunding Issues

(Amounts in Thousands)

	Types of Refunding	Par Value of Refunding Issue*	Par Value Refunded	Cash Flow Difference Increase (Decrease)	Economic Gain
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds					
Texas Water Development Board	Current Refunding	\$ 37,940	\$ 51,565	\$21,899	\$ 10,611
Governmental Activities Total		<u>37,940</u>	<u>51,565</u>	<u>21,899</u>	<u>10,611</u>
BUSINESS-TYPE ACTIVITIES					
Revenue Bonds					
University of Houston System	Current Refunding	75,640	87,450	12,683	11,418
Texas A&M University System	Advance Refunding	70,680	79,715	13,640	10,974
Texas A&M University System	Current Refunding	1,015	1,015	51	50
University of Texas System	Advance Refunding	47,465	53,990	12,030	9,545
Texas Tech University System	Advance Refunding	49,395	52,460	9,265	8,009
Texas Tech University System	Current Refunding	31,645	31,925	11,142	7,826
University of North Texas System	Advance Refunding	27,785	29,880	(5,443)	3,796
Texas State University System	Advance Refunding	10,970	12,535	(1,974)	1,558
Texas State University System	Current Refunding	2,530	3,200	(1,050)	619
Texas State Technical College	Advance Refunding	5,990	6,355	412	344
Texas Woman's University	Advance Refunding	6,339	4,065	1,047	906
Texas Woman's University	Current Refunding	11,576	14,795	1,912	1,655
Business-Type Activities Total		<u>341,030</u>	<u>377,385</u>	<u>53,715</u>	<u>56,700</u>
Total		<u>\$378,970</u>	<u>\$428,950</u>	<u>\$75,614</u>	<u>\$ 67,311</u>

* Other funds totaling approximately \$24 million were used to refund/defease additional bonds.

Defeased Bonds

Texas defeased various bond issues by placing funds in irrevocable trusts in the Texas Treasury Safekeeping Trust Company (Trust Company) and external financial institutions to provide for all future debt service payments on the old bonds. Funds placed in the Trust Company to defease \$209.3 million in bonds are included in the state's financial statements in an agency fund. The trust account assets and the liability for all other defeased bonds are not included in the state's financial statements. The Texas Water Development Board defeased \$10.5 million of governmental activity general obligation bonds this year. As of Aug. 31, 2012, the following amounts of defeased bonds, at par, remain outstanding for all bond issuers.

Defeased Bonds Outstanding

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES

General Obligation Bonds	
Texas Public Finance Authority	\$ 200,660
Texas Water Development Board	10,500
Revenue Bonds	
Texas Public Finance Authority	29,395
Texas National Research Laboratory Commission	8,625
Governmental Activities Total	<u>249,180</u>

BUSINESS-TYPE ACTIVITIES

General Obligation Bonds	
Texas Water Development Board	37,995
Veterans Land Board	25,500
Revenue Bonds	
University of Texas System	1,496,163
Texas Water Development Board	173,845
Texas A&M University System	121,560
Texas Tech University System	52,460
University of North Texas System	29,880
Texas State University System	29,175
Texas Woman's University	4,065
Stephen F. Austin State University	1,016
Business-Type Activities Total	<u>1,971,659</u>

Total	<u><u>\$2,220,839</u></u>
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Government Code, Section 2306.555. The 501(c)(3) tax-exempt multifamily mortgage revenue bond program provides long-term variable or fixed rate financing to nonprofit borrower/developers of new or existing multifamily rental properties in order to generate and/or preserve affordable rental housing. TSAHC may finance single developments or pools of properties located throughout the state of Texas. Borrowers must agree to set aside a prescribed percentage of a property's units for rent to persons and families of low income. TSAHC finances properties under the program primarily through the sale of tax-exempt multifamily housing revenue bonds.

The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. TSAHC, the state and any political subdivision thereof are not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying statements.

As of Aug. 31, 2012, there were 14 series of multifamily housing revenue bonds outstanding with an aggregate \$183 million principal amount payable. No bonds were issued in fiscal 2012.

The Private Activity Bond Surface Transportation Corporation, a blended component unit of the state, issued two series of bonds in the aggregate amount of \$1 billion that remains outstanding as of Aug. 31, 2012. The proceeds were loaned to LBJ Infrastructure Group LLC and NTE Mobility Partners LLC to finance the development and expansion of public transportation projects. Debt service is funded from loan and interest repayments from the borrowers. These bonds, previously recorded as a long-term liability, were determined to be conduit debt. The financial statements were restated in the current year and the conduit debt is only disclosed in these notes.

Conduit bond debt for the Texas Department of Housing and Community Affairs (multifamily housing bonds) and the Texas Small Business Industrial Devel-

Conduit Debt

The Texas State Affordable Housing Corporation (TSAHC), a discrete component unit of the state, is authorized to issue statewide 501(c)(3) tax-exempt multifamily mortgage revenue bonds under Texas

opment Corporation, a discrete component unit of the state, predates the implementation of note disclosure requirements and is reported in the financial statements.

INTEREST RATE SWAPS

Effective interest rate swap agreements are considered hedging derivatives. The aggregate debt service requirements and associated net swap payments are

detailed in this note. See Note 7 for additional information on derivatives.

Estimated Debt Service of Swap Payments

Using rates as of Aug. 31, 2012, the debt service requirements of the state's variable-rate and fixed-rate bonds and associated net swap payments were estimated and are presented in the following tables.

Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable- Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

Year	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2013	\$ 106,045	\$ 5,708	\$ 118,990	\$ 230,743
2014	110,300	5,517	114,942	230,759
2015	123,395	5,321	110,838	239,554
2016	131,675	5,093	106,048	242,816
2017	132,090	4,852	100,948	237,890
2018 - 2022	642,845	20,669	430,958	1,094,472
2023 - 2027	701,880	14,588	305,026	1,021,494
2028 - 2032	647,630	8,597	179,936	836,163
2033 - 2037	543,360	3,745	79,139	626,244
2038 - 2042	166,055	369	5,897	172,321
2043 - 2047	195		1	196
Total	<u>\$ 3,305,470</u>	<u>\$ 74,459</u>	<u>\$ 1,552,723</u>	<u>\$ 4,932,652</u>

Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable- Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

Year	Variable-Rate Bonds		Interest Rate Swaps, Net *	Total
	Principal	Interest		
2013	\$ 890	\$ 76	\$ (756)	\$ 210
2014	950	74	(755)	269
2015	1,010	72	(754)	328
2016	1,070	70	(754)	386
2017	1,135	67	(754)	448
2018 - 2022	6,830	292	(3,771)	3,351
2023 - 2027	9,250	201	(3,767)	5,684
2028 - 2032	10,995	80	(2,944)	8,131
2033 - 2037	1,370	2	(1,483)	(111)
2038 - 2042			(120)	(120)
Total	<u>\$ 33,500</u>	<u>\$ 934</u>	<u>\$ (15,858)</u>	<u>\$ 18,576</u>

* Includes swap payments for swaps that overlay pay-fixed, receive-variable swaps on the same bonds. Principal and interest on these bonds are reported only in the pay-fixed, receive-variable swap table.

Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Fixed- Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

Year	Fixed-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2013	\$ 4,185	\$ 65,995	\$ (5,880)	\$ 64,300
2014	5,115	65,828	(5,667)	65,276
2015	6,045	65,623	(5,666)	66,002
2016	6,955	65,379	(5,666)	66,668
2017	8,895	65,101	(5,666)	68,330
2018 - 2022	181,040	311,238	(28,316)	463,962
2023 - 2027	310,960	245,303	(22,902)	533,361
2028 - 2032	485,245	151,159	(85)	636,319
2033 - 2037	340,145	32,472	(22)	372,595
Total	<u>\$ 1,348,585</u>	<u>\$ 1,068,098</u>	<u>\$ (79,870)</u>	<u>\$ 2,336,813</u>

The tables were prepared assuming current interest rates and swap index relationships remain the same for their terms. As rates and index relationships vary in the future, so will the resulting actual interest payments and net swap payments.

NOTE 7

Derivative Instruments

Derivatives are financial instruments whose values are derived, in whole or part, from the value of any one or more underlying assets or index of asset values. Derivatives include swap contracts, futures contracts, options, options on futures contracts, and forward contracts.

Hedging derivatives are entered into to reduce the overall cost of borrowing long-term capital and protect against the risk of rising interest rates. The hedging derivatives primarily consist of interest rate swap agreements entered into in connection with long-term bonds. The derivative contracts enable the state to issue bonds at a cost less than what the state would have paid to issue conventional fixed rate debt.

Investment derivatives are entered into with the intention of managing transaction risk, reducing interest cost, or reducing currency exchange risk in purchasing, selling or holding investments. Ineffective hedges are also reported as investment derivatives.

Summary of Derivative Activity

The fair value of effective hedging derivatives is recorded as derivative instrument assets (positive fair value) and derivative instrument liabilities (negative fair value). The cumulative change in fair value of effective hedging derivatives is reported as deferred inflows and deferred outflows. The state's cumulative derivative activity as of Aug. 31, 2012, is summarized on the following page. The notional amounts are presented in U.S. dollar equivalents, with the exception of commodity forwards, which are presented in million British thermal units (MMBTU).

Summary of Derivative Activity

(Amounts in Thousands)

	Change in Fair Value	Fair Value	Notional Amount
GOVERNMENTAL ACTIVITIES			
<i>Investment Derivatives</i>			
Basis Swaps	\$ (1,131)	\$ 25,121	\$ 400,000
Futures	7,352		34,872
BUSINESS-TYPE ACTIVITIES			
<i>Cash Flow Hedges</i>			
Pay-Fixed Receive-Variable Interest Rate Swaps	\$ (202,010)	\$ (770,766)	\$ 3,345,785
Commodity Forwards	(2,244)	(2,244)	960 *
<i>Investment Derivatives</i>			
Pay-Fixed Receive-Variable Interest Rate Swaps	\$ 539	\$ 996	\$ 135,040
Pay-Variable Receive-Fixed Interest Rate Swaps	32	32	28,225
Basis Swaps	374	7,729	954,975
Credit Default Swaps	(681)	152	137,273
Equity Swaps	1,554	1,554	596,856
Currency Swaps	(50)	(50)	5,054
Commodity Swaps	(214)	(214)	12,161
Forwards	(12,710)	(12,710)	2,451,993
Futures	(2,543)		1,336,261
Options	(89,216)	42,476	24,390,722
FIDUCIARY ACTIVITIES			
<i>Investment Derivatives</i>			
Pay-Fixed Receive-Variable Interest Rate Swaps	\$ (3,415)	\$ (699)	\$ 60,532
Pay-Variable Receive-Fixed Interest Rate Swaps	2,561	777	41,192
Total Return Swaps	(197,909)	21,316	1,131,863
Credit Default Swaps	247		
Forwards	(42,750)	23,326	6,124,786
Futures	(635,424)		9,038,282
Warrants	6,427	32,821	10,445
Options	4,910	4,830	38,134

* The unit of measurement for the notional amount of the commodity forwards is expressed in million British thermal units (MMBTU). The notional amount of the commodity forwards is 960 thousand MMBTUs.

Derivative Instruments by Entity and Type

Entity/Type of Derivative Instruments

Veterans Land Board (VLB)

Hedging and investment derivatives

Texas Department of Housing and Community Affairs (TDHCA)

Hedging derivatives

University of Texas System (UT)

Hedging and investment derivatives

Texas A&M University System (A&M)

Hedging and investment derivatives

Texas Department of Transportation (TxDOT)

Investment derivatives

Permanent School Fund (PSF)*

Investment derivatives

Employees Retirement System of Texas (ERS)

Investment derivatives

Teacher Retirement System of Texas (TRS)

Investment derivatives

* The permanent school fund is jointly managed by the Texas Education Agency and the Texas General Land Office, but issues a separately audited stand-alone annual financial report.

Fair Value

Derivative instruments are recorded at fair value. The fair values of the interest rate swaps were determined using a combination of methods as outlined below.

VLB and UT used the zero-coupon method in determining the fair values of their effective interest rate swaps. Several of VLB's effective interest rate swaps contain a provision for the state to be "knocked out" of the swaps by the respective counterparties upon the breach of certain predetermined barriers. In each of these cases, VLB was paid an up-front option premium by the respective counterparties. With regard to the

swap associated with Vet Land Tax Ref Bds Ser '2000, the knock-out is permanent once the option is taken at the discretion of the counterparty. In the remainder of the swaps with knock-out provisions, the knock-out is mandatory and is periodic in nature, with the knock-out period corresponding only to the period during which the respective barrier is breached. The knock-out provisions are an integral part of the associated swaps, and the fair values of the swaps include the effects of the knock-outs.

TDHCA based the fair value of its swaps on market conditions as of Aug. 31, 2012. Fair values were directly obtained by the counterparties to the transactions and

separately verified by an independent third party. Valuations are based on mid-market levels and may not reflect the amount a counterparty would have required in the event of an early termination of the swap transaction on that date. For swaps with no pre-defined notional amortization schedule, a valuation was performed based on an assumed notional amortization.

Futures contracts are marked-to-market daily and valued at closing market prices on the valuation date. A daily variation margin (the gain or loss) between the daily value of the contracts and the value on the previous day is recorded and settled in cash with the broker the following morning. Options and swaps are valued using broker quotes, proprietary pricing agents or appropriate pricing models with primarily externally verifiable model inputs.

The fair value of forward currency contracts is estimated by adding the forward points to the corresponding spot rate. These rates are then applied to the outstanding currency exchange to derive a change in valuation.

HEDGING DERIVATIVES

The state entered into interest rate swap agreements with various counterparties, all of which are highly rated financial institutions, to manage various risks associated with the state's debt programs. Each of the state's interest rate swaps is a contractual agreement entered into between the state and a counterparty under which each party agrees to exchange periodic fixed or variable payments, based upon a stated notional amount, over the stated life of the agreement. The net differential paid or received is recognized over the life of the agreement as an adjustment to interest expense. Interest

rate swaps determined to be hedging derivatives are designated as cash flow hedges. The state also entered into commodity forward contracts to hedge against the future purchase of natural gas. The specific objectives for each category of effective hedges are summarized below.

Pay-fixed Interest Rate Swaps: The combination of these swaps and variable rate bonds creates synthetic fixed-rate debt. The use of synthetic fixed-rate debt has historically lowered the state's borrowing costs, as compared to the borrowing costs associated with the issuance of traditional fixed-rate bonds.

Commodity Forward: The state enters into commodity forward contracts to meet the objective of hedging the risk that changes in the market price of natural gas will adversely affect the cash flows of the expected purchase of natural gas. As of Aug. 31, 2012, the outstanding commodity forward contracts include contracts with future expiration dates extending from September 2012 through August 2013. Contracts will be cash-settled on the expiration date based on the New York Mercantile Exchange (NYMEX) market price.

Significant Terms and Credit Ratings

The significant terms and credit ratings of the state's hedging derivatives as of Aug. 31, 2012, are shown in the following tables. The variable rates are quoted in terms of a percentage of the London Interbank Offered Rate (LIBOR) or Securities Industry and Financial Markets Association (SIFMA) municipal swap index rates as noted. Standard & Poor's and Moody's Investor service credit ratings are disclosed for each swap and forward contract. The notional amount for the commodity forward is expressed as MMBTUs.

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Maturity Date	Term
VETERANS LAND BOARD – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS				
Vet Hsg Ref Bds Ser '95	\$ 37,540	11/29/1995	12/01/2016	Pay 5.52%; receive Actual Bond Rate
Vet Land Ref Bds Ser '99A	20,945	06/01/1999	12/01/2018	Pay 5.112%; receive 68% of 6M LIBOR
Vet Land Tax Ref Bds Ser '2000	36,835	12/01/2000	12/01/2020	Pay 6.106%; receive 100% of 6M LIBOR
Vet Hsg Fund II Bds Ser 2001A-2	20,000	03/22/2001	12/01/2029	Pay 4.259%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2001C-2	25,000	12/18/2001	12/01/2033	Pay 4.365%; receive 68% of 1M LIBOR
Vet Land Bds Ser 2002	16,480	02/21/2002	12/01/2032	Pay 4.14%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2002A-2	23,650	07/10/2002	06/01/2033	Pay 3.8725%; receive 68% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2002	27,685	12/01/2002	12/01/2021	Pay 4.935%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2002B	19,780	12/01/2002	06/01/2023	Pay 4.91%; receive 100% of 6M LIBOR
Vet Hsg Fund II Bds Ser 2003A	32,330	03/04/2003	06/01/2034	Pay 3.304%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2003B	33,605	10/22/2003	06/01/2034	Pay 3.403%; receive 64.5% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2003	21,165	12/01/2003	12/01/2023	Pay 5.123%; receive 100% of 1M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2003	47,865	12/01/2003	06/01/2021	Pay 5.19%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2004	16,535	06/01/2004	12/01/2024	Pay 5.45%; receive 100% of 6M LIBOR
Vet Hsg Fund II Bds Ser 2004B	36,475	09/15/2004	12/01/2034	Pay 3.68%; receive 68% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2004	21,095	12/01/2004	12/01/2024	Pay 5.455%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2004C,D	32,305	12/01/2004	06/01/2020	Pay 5.348%; receive 100% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2005A	36,060	02/24/2005	06/01/2035	Pay 3.279%; receive 68% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2005	19,585	12/01/2005	12/01/2026	Pay 6.517%; receive 100% of 6M LIBOR
Vet Hsg Fund I/II Tax Ref Bds Ser 2005C,D	23,290	12/01/2005	06/01/2026	Pay 5.145%; receive 100% of 1M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2005C	14,525	12/01/2005	12/01/2023	Pay 4.929%; receive 100% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2006A	37,715	06/01/2006	12/01/2036	Pay 3.517%; receive 68% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2006A	26,335	06/01/2006	12/01/2027	Pay 6.54%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2006B	38,570	06/01/2006	12/01/2026	Pay 5.83%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2006C	19,030	06/01/2006	12/01/2027	Pay 5.79%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2006B	20,745	06/01/2006	12/01/2026	Pay 4.61%; receive 100% of 6M LIBOR
Vet Hsg Fund II Bds Ser 2006D	39,730	09/20/2006	12/01/2036	Pay 3.689%; receive 68% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2006C	34,305	12/01/2006	12/01/2027	Pay 6.513%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2006E	39,560	12/01/2006	12/01/2026	Pay 5.461%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2007C	33,760	12/01/2007	06/01/2029	Pay 4.658%; receive 100% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2007A	39,810	02/22/2007	06/01/2037	Pay 3.645%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2007B	42,005	06/26/2007	06/01/2038	Pay 3.712%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2008A	42,095	03/26/2008	12/01/2038	Pay 3.189%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2008B	43,400	09/11/2008	12/01/2038	Pay 3.225%; receive 68% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2009C	15,395	12/01/2009	12/01/2021	Pay 6.22%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2009C	63,850	12/01/2009	06/01/2031	Pay 5.4525%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2010B	63,990	06/01/2010	12/01/2031	Pay 5.401%; receive 100% of 1M LIBOR
Vet Bds Ser 2010C	73,095	08/20/2010	12/01/2040	Pay 2.3095%; receive 68% of 1M LIBOR
Vet Tax Ref Bds Ser 2010D	16,020	12/01/2010	12/01/2030	Pay 5.209%; receive 100% of 1M LIBOR
Vet Tax Ref Bds Ser 2010E	47,540	12/01/2010	06/01/2032	Pay 2.79%; receive 100% of 1M LIBOR
Vet Bds Ser 2011A	73,215	03/09/2011	06/01/2041	Pay 2.675%; receive 68% of 1M LIBOR
Vet Bds Ser 2011B	74,140	08/25/2011	12/01/2041	Pay 2.367%; receive 68% of 1M LIBOR
Vet Bds Ser 2011C	74,995	12/15/2011	06/01/2042	Pay 1.917%; receive 68% of 3M LIBOR
Vet Bds Ser 2012A	74,995	05/23/2012	12/01/2042	Pay 1.692%; receive 68% of 3M LIBOR
Vet Bds Ser 2012B	100,000	11/01/2012	12/01/2042	Pay 1.447%; receive 68% of 3M LIBOR
Vet Tax Ref Bds, Ser 1994A-2	21,795	08/01/2012	12/01/2033	Pay 3.76%; receive 68% of 1M LIBOR

Continued on the following page

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings (continued)

(Amounts in Thousands)

Associated Bond Issue	Knock-Out Barrier	Up Front Premium Received	Counterparty Credit Ratings
VETERANS LAND BOARD – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
Vet Hsg Ref Bds Ser '95	N/A	\$	A- / Baa1
Vet Land Ref Bds Ser '99A	N/A		A- / Baa1
Vet Land Tax Ref Bds Ser '2000	1M LIBOR >= 7.00%	2,700	AAA / Aa2
Vet Hsg Fund II Bds Ser 2001A-2	N/A		A- / Baa2
Vet Hsg Fund II Bds Ser 2001C-2	N/A		AAA / Aa2
Vet Land Bds Ser 2002	N/A		A / A2
Vet Hsg Fund II Bds Ser 2002A-2	N/A		A+ / Aa3
Vet Land Tax Ref Bds Ser 2002	6M LIBOR >= 7.00%	2,785	A / A2
Vet Hsg Fund I Tax Ref Bds Ser 2002B	6M LIBOR > 7.00%	2,165	AAA / Aa2
Vet Hsg Fund II Bds Ser 2003A	N/A		A+ / Aa3
Vet Hsg Fund II Bds Ser 2003B	N/A		AAA / Aa2
Vet Land Tax Ref Bds Ser 2003	1M LIBOR >= 7.00%	1,896	A+ / Aa3
Vet Hsg Fund I Tax Ref Bds Ser 2003	6M LIBOR > 7.00%	4,470	AAA / Aa2
Vet Hsg Fund I Tax Ref Bds Ser 2004	6M LIBOR >= 7.00%	1,442	A+ / Aa3
Vet Hsg Fund II Bds Ser 2004B	N/A		A+ / Aa3
Vet Land Tax Ref Bds Ser 2004	6M LIBOR >= 7.00%	2,075	A / A2
Vet Hsg Fund II Tax Ref Bds Ser 2004C,D	1M LIBOR >= 7.00%	2,594	A+ / Aa3
Vet Hsg Fund II Bds Ser 2005A	N/A		AAA / Aa2
Vet Land Tax Ref Bds Ser 2005	6M LIBOR >= 7.00%	1,542	A+ / Aa3
Vet Hsg Fund I/II Tax Ref Bds Ser 2005C,D	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	1,367 567	A+ / Aa3
Vet Hsg Fund I Tax Ref Bds Ser 2005C	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	484 267	A+ / Aa3
Vet Hsg Fund II Bds Ser 2006A	N/A		A+ / As3
Vet Land Tax Ref Bds Ser 2006A	6M LIBOR >= 7.00%	1,931	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2006B	1M LIBOR >= 7.00%	1,992	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2006C	6M LIBOR >= 7.00%	1,493	A+ / Aa3
Vet Land Tax Ref Bds Ser 2006B	6M LIBOR >= 7.00%	886	AAA / Aa2
Vet Hsg Fund II Bds Ser 2006D	N/A		A / A2
Vet Land Tax Ref Bds Ser 2006C	1M LIBOR >= 7.00%	2,725	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2006E	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	2,652 1,018	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2007C	1M LIBOR >= 7.00%; SIFMA/5Y ISDA CMS > 71%	935 1,020	A+ / Aa3
Vet Hsg Fund II Bds Ser 2007A	N/A		AAA / Aa2
Vet Hsg Fund II Bds Ser 2007B	N/A		A+ / Aa3
Vet Hsg Fund II Bds Ser 2008A	N/A		A+ / As3
Vet Hsg Fund II Bds Ser 2008B	N/A		AAA / Aa2
Vet Hsg Fund II Tax Ref Bds Ser 2009C	6M LIBOR >= 7.00%	612	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2009C	6M LIBOR >= 7.00%	2,740	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2010B	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	2,355 1,427	A+ / Aa3
Vet Bds Ser 2010C	N/A		A / A2
Vet Tax Ref Bds Ser 2010D	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	466 208	A+ / Aa3
Vet Tax Ref Bds Ser 2010E	N/A		AAA / Aa2
Vet Bds Ser 2011A	N/A		A+ / A2
Vet Bds Ser 2011B	N/A		A+ / A2
Vet Bds Ser 2011C	N/A		AAA / Aa2
Vet Bds Ser 2012A	N/A		AAA / Aa2
Vet Bds Ser 2012B	N/A		AAA / Aa2
Vet Tax Ref Bds, Ser 1994A-2	1M LIBOR >= 7.00%	579	A+ / As3

Continued on the following page

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings (continued)

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Maturity Date	Term
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS				
2004B Single Family	\$ 53,000	09/01/2004	09/01/2034	Pay 3.84%; receive 63% of LIBOR + .30%
2004D Single Family	35,000	01/01/2005	03/01/2035	Pay 3.64%; receive Lesser of (the greater of (a) 65% of LIBOR and (b) 56% of LIBOR + .45%) and LIBOR
2005A Single Family	67,475	08/01/2005	09/01/2036	Pay 4.01%; receive Lesser of (the greater of (a) 65% of LIBOR and (b) 56% of LIBOR + .45%) and LIBOR
2006H Single Family	36,000	11/15/2006	09/01/2025	Pay 3.86%; receive 63% of LIBOR +.30%
2007A Single Family	94,820	06/05/2007	09/01/2038	Pay 4.01%; receive Lesser of (the greater of (a) 65% of LIBOR and (b) 56% of LIBOR + .45%) and LIBOR
UNIVERSITY OF TEXAS SYSTEM – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS*				
RFS Bonds 2007B	166,850	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
RFS Bonds 2007B	166,850	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
PUF Bonds 2008A	195,690	11/03/2008	07/01/2038	Pay 3.696%; receive SIFMA
PUF Bonds 2008A	195,690	11/03/2008	07/01/2038	Pay 3.6575%; receive SIFMA
RFS Bonds 2008B	141,725	03/18/2008	08/01/2036	Pay 3.9%; receive SIFMA
RFS Bonds 2008B	141,725	03/18/2008	08/01/2036	Pay 3.9%; receive SIFMA
RFS Bonds 2008B	332,120	03/18/2008	08/01/2039	Pay 3.614%; receive SIFMA

* PUF stands for permanent university fund and RFS stands for revenue financing system.

Concluded on the following page

Hedging Forward Contracts: Significant Terms and Credit Ratings

	Number of Contracts	Notional Amount	Effective Dates Range*	Termination Dates Range*	Terms: Pay (Average)	Terms: Receive	Counterparty Credit Ratings
2013 Forward Contracts (A&M)	24 Contracts	960,000/ MMBTUs	02/06/2009 - 02/12/2009	09/01/2012 - 08/01/2013	\$7.44/ MMBTU	NYMEX market price	AA

* A&M invested in several separate commodity forward contracts. This disclosure summarizes the contracts by establishing ranges and averages of detailed individual contract information.

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings (concluded)

(Amounts in Thousands)

Associated Bond Issue	Knock-Out Barrier	Up Front Premium Received	Counterparty Credit Ratings
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
2004B Single Family	N/A	\$	A / A2
2004D Single Family	N/A		A / A2
2005A Single Family	N/A		A+ / Aa3
2006H Single Family	N/A		A / A2
2007A Single Family	N/A		A+ / Aa3
UNIVERSITY OF TEXAS SYSTEM – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
RFS Bonds 2007B	N/A		A+ / Aa3
RFS Bonds 2007B	N/A		A / A2
PUF Bonds 2008A	N/A		A- / Baa1
PUF Bonds 2008A	N/A		AA- / Aa3
RFS Bonds 2008B	N/A		A+ / Aa3
RFS Bonds 2008B	N/A		A- / Baa1
RFS Bonds 2008B	N/A		A+ / Aa3

Risks

Credit Risk: The state is exposed to credit risk if the counterparty to an interest rate swap fails to meet the terms and obligations of its contracts. The state mitigates the credit risk associated with its swaps by entering into transactions with a diversified group of highly-rated counterparties. The interest rate swap agreements also contain varying collateral agreements and insurance policies with the counterparties. Posted collateral may be held either by the state itself or by a quality third party custodian. Swap contracts with a negative fair value do not expose the state to credit risk. As of Aug. 31, 2012, the state was not exposed to credit risk because the swap recorded in the positive position was offset by other swaps with negative fair values.

Interest Rate Risk: On the pay-fixed, receive-variable interest rate swaps, as LIBOR or the SIFMA municipal swap index decrease, the state's net payment on the swap increases. For the related hedged variable

rate debt, as LIBOR or the SIFMA municipal swap index decrease the state's interest payments on the bonds decrease. The value of interest rate swap agreements with a longer weighted average maturity tend to be more sensitive to changing interest rates, and therefore, more volatile than those with shorter maturities.

Basis Risk: The state is exposed to basis risk to the extent that the interest payments on its variable rate bonds do not match the variable rate payments received on the associated swaps. The state mitigates this risk by matching the notional amount and amortization schedule of each swap to the principal amount and amortization schedule of each associated variable rate bond issue and by selecting an index for the variable rate leg of each swap that is reasonably expected to closely match the interest rate resets on the associated variable rate bonds over the life of each bond issue. Additionally, tax-exempt interest rates can change without a corresponding change in taxable interest rates due to factors affect-

ing the tax-exempt market that do not have a similar effect on the taxable market.

The state is exposed to basis risk on its commodity forward contracts because the expected commodity purchase will be priced based on a pricing point of Waha Natural Gas Hub, while the hedging forward contract is expected to settle on the NYMEX pricing point. As of Aug. 31, 2012, the Waha price was \$2.65 per MMBTU and the NYMEX price was \$2.74 per MMBTU.

Termination Risk: Termination risk is the risk that the swap may be terminated prior to its scheduled maturity date as a result of certain specified events. The swap associated with the Vet Land Tax Ref Bds Ser '2000 provides the counterparty with the option to terminate the swap under certain conditions.

The state or the counterparties may terminate any of the swaps if the other party fails to perform under the terms of the respective swap agreements. If any of the swaps are terminated, the associated variable-rate bonds would no longer have a synthetic fixed-rate and the state would be subject to interest rate risk to the extent that the variable-rate bonds were not hedged with another swap or with variable-rate assets. Unless there is a termination option exercised by the counterparty, the state would owe the counterparty a termination payment equal to the swap's negative fair value.

Several swap agreements include optional early termination provisions granting the state the right, but not an obligation, to terminate the interest rate swaps at par without a termination payment after an effective date or after the breach of certain counterparty credit ratings.

Rollover Risk: Rollover risk is the risk caused by a mismatch between the amortization of a derivative contract and the underlying hedged bonds. The maturity dates of the state's effective interest rate swaps were designed to extend to the maturity dates of the underly-

ing bonds. However, in the case of the swap associated with the Vet Land Tax Ref Bds Ser '2000, the state will be subject to rollover risk if the counterparty exercises the option to terminate the swap contract.

Market-access Risk: Each swap associated with underlying variable-rate debt subject to tender at the option of the bondholder is subject to market-access risk. In the event the state is unable to remarket its variable-rate bonds, the state may choose to refund the variable-rate bonds with fixed-rate bonds and optionally terminate the related interest rate swap agreements. If an early termination event occurs, the state could be required to pay or to receive a substantial termination payment.

Swap Payments and Associated Debt

Aggregate debt service requirements of the state's variable-rate debt and net receipts/payments on associated hedging derivative instruments are disclosed in Note 6.

Contingent Features

Some of the state's derivative instruments include provisions that require the posting of collateral in the event that the contracting agency's credit rating falls below a specified level as issued by Moody's Investor Service and Standard & Poor's. If the contracting agency fails to post eligible collateral, the derivative instrument may be terminated by the counterparty. Note 15 discloses detail about derivatives with contingent features.

INVESTMENT DERIVATIVES

Investment derivatives expose the state to certain investment related risks. Note 3 discloses detail about the state's investment derivatives.

NOTE 8

Leases

The state leases office buildings, computer and office equipment and other assets under a variety of agreements. Although lease terms vary, most leases are subject to biennial appropriations from the Legislature to continue the lease obligations.

Operating Leases

Operating lease payments are recorded as expenditures or expenses during the life of the lease. Rental expenditures or expenses related to operating leases for fiscal 2012 were \$297 million for the primary government and \$2.7 million for discrete component units. The following table presents minimum future rental obligations on noncancelable operating leases as of Aug. 31, 2012.

Noncancelable Operating Lease Obligations

August 31, 2012 (Amounts in Thousands)

Year	Minimum Future Lease Payments	
	Primary Government	Component Units
2013	\$ 256,941	\$ 1,592
2014	206,613	1,088
2015	165,617	883
2016	128,739	735
2017	99,720	571
2018 – 2022	190,098	1,422
2023 – 2027	12,964	
2028 – 2032	6,288	
2033 – 2037	2,454	
2038 – 2042	1,155	
Total	<u>\$ 1,070,589</u>	<u>\$ 6,291</u>

Additionally, the permanent school fund (PSF), the University of Texas System (UT), the Texas A&M University System (A&M) and the Texas Tech University System (Tech) have leased buildings, equipment and land to outside parties under various operating leases. The following table presents estimated future lease rentals on noncancelable operating leases as of Aug. 31, 2012.

Noncancelable Operating Lease Rentals

August 31, 2012 (Amounts in Thousands)

Year	Minimum Future Lease Rentals	
	Primary Government	Component Units
2013	\$ 24,867	\$ 23,600
2014	19,479	
2015	16,468	
2016	13,928	
2017	12,562	
2018 and beyond	85,313	
Total	<u>\$ 172,617</u>	<u>\$ 23,600</u>

The historical cost of PSF's leased assets is \$341 million. Depreciation is not recorded because the assets are held for investment purposes in a permanent fund. Real estate investments are re-appraised periodically and the carrying amounts are adjusted when permanent impairments occur. In fiscal 2012, PSF reported contingent rental revenues in the amount of \$227 thousand.

The historical cost of UT's leased buildings and leased land is \$84 million and \$3.3 million, respectively. As of Aug. 31, 2012, the carrying value of UT's leased assets was \$59.5 million and the related accumulated depreciation was \$27.8 million. UT did not report any contingent rental revenues.

The historical cost of A&M's leased buildings and leased land is \$86 million and \$1.1 million, respectively. As of Aug. 31, 2012, the carrying value of A&M's leased assets was \$54.9 million and the related accumulated depreciation was \$32.2 million. In fiscal 2012,

A&M reported contingent rental revenues of \$686 thousand.

The historical cost of Tech's leased building space is \$17.9 million. As of Aug. 31, 2012, the carrying value of Tech's leased building space was \$7.8 million and the related accumulated depreciation was \$10.1 million. The historical cost, accumulated depreciation and carrying value of the leased building space represents 7.5 percent of the full carrying value of the leased buildings. Tech did not report any contingent rental revenues.

Capital Leases

Leases that are purchases in substance are reported as capital lease obligations. The capital assets are recorded at the present value of the future minimum lease payments at the inception of the lease plus any cash paid or trade-in value received.

For governmental and business-type activities, the assets and liabilities are recorded in the government-wide financial statements.

The table below is a summary of the future minimum lease payments for capital leases.

Future Capital Lease Payments

August 31, 2012 (Amounts in Thousands)

Year	Primary Government						Discretely Presented Component Units		
	Governmental Activities			Business-Type Activities					
	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments
2013	\$ 5,365	\$ 1,237	\$ 6,602	\$ 3,514	\$ 896	\$ 4,410	\$ 54	\$ 7	\$ 61
2014	4,002	804	4,806	2,982	737	3,719	56	6	62
2015	1,717	385	2,102	2,803	597	3,400			
2016	619	66	685	2,099	469	2,568			
2017				1,493	386	1,879			
2018 - 2022				4,993	1,224	6,217			
2023 - 2027				2,837	455	3,292			
2028 - 2032				917	33	950			
Total	<u>\$ 11,703</u>	<u>\$ 2,492</u>	<u>\$ 14,195</u>	<u>\$ 21,638</u>	<u>\$ 4,797</u>	<u>\$ 26,435</u>	<u>\$ 110</u>	<u>\$ 13</u>	<u>\$ 123</u>

The following table presents an analysis of the property recorded under capital leases by asset category as of Aug. 31, 2012.

Assets Under Capital Leases

August 31, 2012 (Amounts in Thousands)

Type	Primary Government				Discretely Presented Component Units	
	Governmental Activities		Business-Type Activities			
	Assets under Capital Lease	Accumulated Depreciation	Assets under Capital Lease	Accumulated Depreciation	Assets under Capital Lease	Accumulated Depreciation
Land	\$	\$	\$ 894	\$	\$	\$
Buildings	18,084	14,098	20,234	4,088		
Furniture and Equipment	6,724	1,398	14,157	2,880	238	107
Vehicles, Boats, Aircraft			223	22		
Computer Software	9,215	1,044	657	99		
Total	<u>\$ 34,023</u>	<u>\$ 16,540</u>	<u>\$ 36,165</u>	<u>\$ 7,089</u>	<u>\$ 238</u>	<u>\$ 107</u>

NOTE 9

Retirement Plans

The state of Texas contributes to six defined benefit pension plans and one defined contribution plan that provide financial benefits to retired employees, as well as to their spouses and beneficiaries, of the state of Texas, school districts and other entities. The defined benefit pension plans are administered by the Employees Retirement System of Texas (ERS) and the Teacher Retirement System of Texas (TRS), which are component units, and the Fire Fighters' Pension Commissioner (FPC), which is part of the primary government. The state is a participating employer in these plans with the exception of the FPC defined benefit pension plan. The state is not an employer in the FPC plan, but makes on-behalf contributions to the FPC plan.

The state makes employer contributions to the defined contribution plan, Optional Retirement Program (ORP), which benefits certain employees of institutions of higher education. This plan is administered by the employers of institutions of higher education.

The state's contributions to these plans are authorized by statute and may be amended by the Legislature. The state reports the pensions' financial activities in the other employee benefit trust funds column of the fiduciary funds financial statements. The investments of the pension funds are included in Note 3.

The Texas Guaranteed Student Loan Corporation's (TGS LC) defined contribution pension plan is disclosed because the TGS LC is a discrete component unit of the state, but the state is not considered an employer of the plan and does not contribute to the plan.

Audited financial statements for each defined benefit pension plan may be obtained from:

Employees Retirement System of Texas
P.O. Box 13207
Austin, Texas 78711-3207

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698

Fire Fighters' Pension Commissioner
P.O. Box 12577
Austin, Texas 78711-2577

Additional information for each defined contribution plan may be obtained from:

Statewide Coordinator, Optional Retirement Program
Texas Higher Education Coordinating Board
P.O. Box 12788
Austin, Texas 78711-2788

Texas Guaranteed Student Loan Corporation
P.O. Box 83100
Round Rock, Texas 78683-3100

DESCRIPTION OF PLANS AND FUNDING POLICY

Employees Retirement System of Texas

The Board of Trustees of ERS is the administrator of four pension plans that provide a standard monthly benefit in a life annuity at retirement and death and disability benefits for members. The Employees Retirement System of Texas Plan (ERS Plan) is considered a cost-sharing, multiple-employer defined benefit plan with a special funding situation. In addition to the state of Texas, employers of the ERS Plan include various component units of the state. The Employees Retirement System and the Texas Treasury Safekeeping Trust Company, which are blended component units, and the Teacher's Retirement System and the State Bar of Texas, which are discrete component units, are also employers of the ERS Plan. The Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS) and

the Judicial Retirement System of Texas (JRS) Plan One (JRS1) and Plan Two (JRS2) are considered single-employer defined benefit pension plans.

Contribution requirements are not actuarially determined, but are set by legislation, except for the JRS2, under which the state contribution rate is actuarially determined every even-numbered year for the next biennium. The contribution rates are based on a percentage of the monthly gross compensation for each member. Each plan's monthly contribution requirements are disclosed in the table below.

Required Contribution Rates

Plan	Employer			Members		
	Employee Class	Elected Class – Legislators	Elected Class – Other	Employee Class	Elected Class – Legislators	Elected Class – Other
ERS	6.0%	6.0%	6.0%	6.5%	8.0%	6.0%
LECOS*	0.0%	N/A	N/A	0.5%	N/A	N/A
JRS1	N/A**	N/A	N/A	6.0%	N/A	N/A
JRS2	6.0%	N/A	N/A	6.0%	N/A	N/A
TRS	6.0%	N/A	N/A	6.4%	N/A	N/A

* Amount contributed is supplemental to amount contributed for the employee class of the ERS Plan.

** JRS1 is funded on a pay-as-you-go basis. Therefore, there is not a required employer contribution rate.

The ERS audited financial statements reflect the results of the actuarial valuations of the four plans it administers. The statements do not note any subsequent legislative action that would negatively affect the certification of actuarial soundness of the plans.

The ERS Plan, established by the Texas Government Code, Chapters 811-815, covers elected class members and employee class members. The monthly benefit is determined by the years and months of service multiplied by a statutorily determined percentage and may vary by class.

The elected class members are vested after eight years of service credit and may retire at age 50 with 12 years of service credit or at age 60 with eight years of

service credit. The monthly standard annuity equals the statutory percentage of 2.3 percent of the current state salary of a district judge multiplied by the number of years of service credit. Retirement benefits are automatically adjusted as state judicial salaries change. The maximum standard annuity is 100 percent of the state salary of a district judge.

The employee class includes all employees and appointed officers of the state and excludes independent contractors and their employees and employees covered by TRS and JRS. Other employee class members include certified peace officers and custodial officers.

In 2009, the 81st Legislature created new plan provisions for members of the employee class hired after Sept. 1, 2009, with the exception of certified peace officers and custodial officers. This resulted in different requirements for benefit eligibility, vesting and early service retirement eligibility with reduced benefits, dependent upon the employee hire date.

For members of the employee class hired on or before Aug. 31, 2009, the following provisions apply:

- Employees vest after five years of service credit.
- Employees may retire at age 60 with five years of service credit or at any age when the sum of age and service credit (including months) total 80.
- The average monthly compensation is the average of the highest 36 months of compensation.
- The monthly standard annuity equals the statutory percentage of 2.3 percent of the average monthly compensation multiplied by the number of years of service credit.
- The minimum monthly standard annuity is \$150; the maximum standard annuity is 100 percent of the average monthly compensation.

For members of the employee class hired on or after Sept. 1, 2009, the following provisions apply:

- Employees vest after 10 years of service credit.
- Employees may retire at age 65 with 10 years of service credit or at any age when the sum of age and service credit (including months) equals or exceeds 80.
- The standard retirement annuity is reduced by five percent for each year the member retires before the member reaches age 60, with a maximum possible reduction of 25 percent.
- The average monthly compensation is the average of the highest 48 months of compensation.
- The monthly standard annuity equals the statutory percentage of 2.3 percent of the average monthly compensation multiplied by the number of years of service credit.

Certified peace officers and custodial officers may retire at age 55 with 10 years of service as a certified peace officer or custodial officer. The average monthly compensation is the average of the highest 36 months of compensation. The monthly standard annuity equals the statutory percentage of 2.3 percent of the average monthly compensation multiplied by the number of years of service credit.

A Partial Lump Sum Payment Option is available to members of the employee class, the elected class and certified peace officers and custodial officers. A one-time partial lump sum of up to three years of standard annuity at retirement can be taken and the annuity is reduced for life.

LECOS, established under Texas Government Code, Section 814.107, provides a supplemental retirement benefit to the ERS employee class member with service rendered while a law enforcement officer (commissioned peace officer) or a custodial officer. Upon meeting the qualification requirements under LECOS, members are eligible for LECOS benefits in addition to those received under the ERS Plan.

In 2009, the 81st Legislature created new plan provisions for LECOS members hired after Sept. 1, 2009. This resulted in different requirements for benefit eligibility, vesting and early service retirement eligibility with reduced benefits, dependent upon the employee hire date.

For members hired on or before Aug. 31, 2009, the following provisions apply:

- Employees with 20 years of service may retire at age 50 or at any age when the sum of age and service credit equals or exceeds 80.
- A member under the age of 50 may receive reduced benefits upon completing 20 years of service.
- The average monthly compensation is the average of the highest 36 months of compensation.
- The monthly standard annuity equals the statutory percentage of 2.3 percent from the ERS Plan plus an additional 0.5 percent from the LECOS Plan of the average monthly compensation multiplied by the number of years of service credit.
- The minimum monthly standard annuity is \$150; the maximum standard annuity is 100 percent of the average monthly compensation.

For members hired on or after Sept. 1, 2009, the following provisions apply:

- Employees may retire after 20 years of service at age 55 or at any age when the sum of age and service credit equals or exceeds 80.
- A member under the age of 55 may receive reduced benefits upon completing 20 years of service.
- The average monthly compensation is the average of the highest 48 months of compensation.
- The monthly standard annuity equals the statutory percentage of 2.3 percent from the ERS Plan plus an additional 0.5 percent from the LECOS Plan of the average monthly compensation multiplied by the number of years of service credit.

- The minimum monthly standard annuity is \$150; the maximum standard annuity is 100 percent of the average monthly compensation.

Annual actuarial valuations of the fund are performed to monitor the adequacy of the financing arrangement. In 2011, the 82nd Legislature did not appropriate any state funding for the LECOS plan for fiscal 2012.

JRS1 is established by Texas Government Code, Chapter 831, and JRS2 is established by Texas Government Code, Chapter 836. JRS covers judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, district courts and certain commissions to a court. Members prior to Sept. 1, 1985, participate in JRS1 and all others participate in JRS2.

Participants in both plans may retire at age 65 with 10 years of service with at least the last year being continuous and currently holding judicial office, or at age 65 with 12 years of service. Members of JRS1 and JRS2 may retire at any age with 20 years of service. Participants in both plans are eligible for reduced early service retirement benefits once they attain age 60 and complete 10 years of service if the member currently holds judicial office with at least the last year being continuous, or at age 60 with 12 years of service.

The monthly benefit for members of both plans is equal to 50 percent of the salary for the position from which the member retired and is increased by 10 percent of final compensation if in office within one year of benefit commencement.

Member contributions for JRS1 are made to the general revenue fund, and the state is obligated to make appropriations from the general revenue fund in an amount sufficient to pay benefits on a pay-as-you-go basis. The contribution requirements are not actuarially determined since the plan is not funded in advance.

State statutes prohibit benefit improvements or contribution reductions if, as a result of the particular

action, the time required to amortize the ERS, LECOS or JRS2 plans' unfunded actuarial liabilities would be increased to a period that exceeds 30 years by one or more years. The statutes also apply if the amortization period already exceeds 30 years by one or more years. According to the actuarial valuations as of Aug. 31, 2012, contributions are insufficient to amortize the current unfunded accrued liabilities of the ERS, LECOS and JRS2 plans over any period of time. Therefore, the 30 year funding objective is not being realized for any of the plans. In 2011, the 82nd Legislature reduced the employer contribution rate for fiscal 2012 for ERS, LECOS and JRS2, and reduced the member contribution rate for the elected class-other.

Teacher Retirement System of Texas

The Board of Trustees of TRS is the administrator of one pension plan (TRS Plan). The TRS Plan, established under Texas Government Code, Chapters 822-824, is considered a cost-sharing multiple-employer defined benefit plan with a special funding situation. The state is required by statute to make contributions to the TRS Plan. For fiscal 2012 the state made the majority of contributions to the TRS Plan. A special funding situation is created, which results in the state reporting the TRS Plan as if it was the sole employer. The employers of the TRS Plan include the state of Texas, TRS and 1,300 public schools, service centers, charter schools and community colleges. Employees of TRS and state of Texas colleges, universities and medical schools are members of the TRS Plan, provided they are employed for one-half or more of the standard work load and are not exempted from membership under Texas Government Code, Section 822.002. The commissioner of the Texas Education Agency may also elect to participate in the TRS Plan in lieu of participation in the ERS Plan in the same manner and under the same conditions as other members of the TRS Plan.

Retirement Systems' Membership

	ERS	LECOS	JRS1	JRS2	TRS
Retirees and Beneficiaries Currently Receiving Benefits	87,799	8,477	433	215	331,747
Terminated Employees Entitled to Benefits But Not Yet Receiving Them	90,190	7,129	4	143	80,856
Current Employees: Vested and Non-Vested	<u>132,669</u>	<u>37,404</u>	<u>17</u>	<u>541</u>	<u>922,799</u>
Total Members	<u>310,658</u>	<u>53,010</u>	<u>454</u>	<u>899</u>	<u>1,335,402</u>

The TRS Plan provides retirement, disability annuities and death and survivor benefits. The benefit and contribution provision of the TRS Plan are authorized by state law and may be amended by the Legislature.

A member is vested after five years of service credit and is eligible to retire at a future date and receive a lifetime monthly annuity.

For members who established membership before Sept. 1, 2007, the following provisions apply:

- Members may retire at age 65 with five years of service credit or when the sum of the member's age and years of service credit equals at least 80 years and membership is maintained until retirement.
- The standard life annuity benefit formula is 2.3 percent of the average of the five highest annual salaries multiplied by the years of service credit.
- For members who established membership on or before Aug. 31, 2005, known as "grandfathered" members, the three highest annual salaries are used to calculate the annuity benefit.
- At normal retirement age, the minimum monthly standard annuity is the greater of \$150 or the formula standard annuity. Total payments will not be less than accumulated contributions at retirement.
- Members qualify for early retirement with reduced benefits at age 55 with five years of ser-

vice credit or any age below 50 with 30 years of service credit, provided the sum of the member's age and years of credited service is less than 80 and membership is maintained until retirement.

For members who established membership after Sept. 1, 2007, the following provisions apply:

- Members may retire at age 65 with five years of service credit, or at age 60 if the sum of the member's age and years of service credit equals at least 80 years.
- Grandfathered members who re-enter TRS on or after Sept. 1, 2007, may retire at age 65 with at least five years of service credit, or if the sum of the member's age and years of service credit equals at least 80 and the member is at least age 55 with at least 20 years of service credit.
- The standard life annuity benefit formula is 2.3 percent of the average of the five highest annual salaries multiplied by the years of service credit.
- For grandfathered members, the three highest annual salaries are used to calculate the annuity benefit.
- At normal retirement age, the minimum monthly standard annuity is the greater of \$150 or the formula standard annuity. Total payments will not be less than accumulated contributions at retirement.

- Members qualify for early retirement with reduced benefits if the member meets one of the following criteria:
 - The member is age 55 with five years of service credit.
 - The member is less than age 60 and the sum of the member's age and years of credited service equals at least 80.
 - The member is less than age 60 and the member has 30 years of credited service.
- Grandfathered members who re-enter TRS on or after Sept. 1, 2007, qualify for early retirement with reduced benefits if the member meets one of the following criteria:
 - The member is age 55 with at least five years of credited service.
 - The member is less than age 55 and the sum of the member's age and years of credited service equals at least 80.
 - The member is less than age 50 and has 30 years of credited service.

TRS offers to all service and eligible disability retirees several annuity payment options that reduce the standard annuity by application of age-related actuarial reduction factors in order to continue payment to a beneficiary after the retiree's death. The available options include 100, 75 and 50 percent joint and survivor annuities and five-year and 10-year guaranteed period annuities.

TRS also offers two other annuity payment options:

- **The Deferred Retirement Option Plan (DROP)** DROP allowed members to freeze their standard annuity and, instead of retiring, have a portion of the frozen standard annuity deposited into a DROP account, for up to five years, while continuing to work for a TRS-affiliated employer. The plan was closed for new participants effective Dec. 31, 2005.
- **A Partial Lump-Sum Cash Option (PLSO)** PLSO reduces the standard monthly annuity and provides a cash lump sum distribution. Members may participate in the PLSO if they

Actuarial Methods and Assumptions

	ERS	LECOS	JRS1	JRS2	TRS
Actuarial Valuation Date	Aug. 31, 2012	Aug. 31, 2012	Aug. 31, 2012	Aug. 31, 2012	Aug. 31, 2012
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Open	Level Percent Open	Level Dollar Open	Level Percent Open	Level Percent Open
Remaining Amortization Period	30 years	30 years	30 years*	30 years	30 years
Asset Valuation Method	20% of market plus 80% of expected actuarial value	20% of market plus 80% of expected actuarial value	Market	20% of market plus 80% of expected actuarial value	5-year Smoothed Market
Actuarial Assumptions:					
Investment Rate of Return	8.0%	8.0%	8.0%	8.0%	8.0%
Payroll Growth	3.5%	3.5%	N/A	3.5%	N/A
Projected Salary Increases	0.0%-13.5%	0.0%-13.5%	3.5%	3.5%	4.25%-7.25%
Includes Inflation at	3.5%	3.5%	3.5%	3.5%	3.0%
Cost-of-Living Adjustments	None-Employee 3.5%-Elected	None	3.5%	None	None

* JRS1 is funded on a pay-as-you-go basis; therefore, there is no advance funding.

are eligible for service retirement and meet the Rule of 90 (age and years of service credit equal at least 90), are not participating in the DROP plan and are not retiring with disability benefits.

Contribution requirements are not actuarially determined but are legally established each biennium. The TRS Plan's monthly contribution requirements are disclosed on the "Required Contribution Rates" table. The Texas Constitution requires the Legislature to establish a member contribution rate of not less than 6 percent of the member's annual compensation, and a state contribution rate of not less than 6 percent but not greater than 10 percent of the aggregate annual compensation of all members of the TRS Plan during that fiscal year. As required by state statute, the state rate is paid by the employer for compensation paid to new members during the first 90 days of employment, on amounts paid to employees above the statutory minimum amount, and on compensation paid from private or federal funds. Total employer contributions to the TRS Plan are a combination of state, public schools, federal and private funding.

State statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize the TRS Plan's unfunded actuarial liabilities would be increased to a period that would exceed 30 years by one or more years, or, if the amortization period already exceeds 30 years by one or more years, the period would be increased by such action. According to the actuarial valuation as of Aug. 31, 2012, contributions are insufficient to amortize the current unfunded accrued liabilities of the TRS Plan over any period of time. Therefore, the 30 year funding objective is not being realized. In 2011, the 82nd Legislature reduced the employer contribution rate for fiscal 2012.

Optional Retirement Program

The state's contributions to the Optional Retirement Program (ORP) are authorized by Texas Govern-

ment Code, Chapter 830. Full-time faculty, librarians and certain professionals and administrators employed in public higher education are eligible to elect ORP in lieu of the TRS Plan before the 91st day after becoming eligible. It is a one-time irrevocable choice between two distinct plans. ORP is administered by the benefits offices at each employer. The Texas Higher Education Coordinating Board develops policies, practices and procedures to provide greater uniformity in the administration of ORP.

ORP is a defined contribution pension plan in which each participant selects from a variety of investments offered by several insurance and investment companies through annuity contracts or mutual fund investments. These types of investments are authorized by Internal Revenue Code, Section 403(b). With the purchase of these individual contracts, the state has effectively transferred the obligation for the payment of benefits to the companies. Participants vest in ORP after one year of participation.

The contributory percentages of participant salaries provided by each participant and the state were 6.65 percent and 6 percent, respectively, for fiscal 2012. Institutions and agencies authorized under state law to provide ORP to their employees may supplement the state contribution at a rate of up to 2.5 percent of payroll.

Individual accounts are maintained at the insurance and investment companies selected by each ORP participant. Separate financial statements for ORP are not prepared because the state retains no liability for plan performance and has very limited administrative involvement.

The employers of ORP are institutions of higher education, one educational state agency and several two-year college institutions that are not part of the state reporting entity. State entity participation in ORP for fiscal 2012 resulted in participant contributions of \$226.7 million and employer contributions of \$270.2 million.

As of Aug. 31, 2012, ORP had 37,943 participants. The total participant contributions were \$258.6 million and total employer contributions were \$304 million. Additional information for ORP is included in the fiscal 2012 *ORP Participation Report Summary* published annually by the Texas Higher Education Coordinating Board.

Fire Fighters' Pension Commissioner

FPC is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple-employer defined benefit pension plan established to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. As of Aug. 31, 2012, there were 214 member fire departments participating in TESRS. The state is not an employer of the TESRS plan.

The statutory authority for TESRS is found in Texas Government Code, Chapters 861-865. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member. No contributions are required by individual members

of participating departments. Additional contributions may be made by a governing body to pay for granting credit for service before the department began participating in TESRS. Per Texas Government Code, Section 865.015, the state is required to appropriate a limited amount to make the fund actuarially sound. The appropriations may not exceed the amount of one-third of the total of all contributions by governing bodies in one year. Legislative appropriations to assist with TESRS's administrative expenses for the past three fiscal years are:

- Fiscal 2012: \$572.3 thousand
- Fiscal 2011: \$628 thousand
- Fiscal 2010: \$502.9 thousand

The member fire department contributions to the fund were \$3.6 million for fiscal 2012. Contributions made were equal to the yearly statutorily required contributions.

Annual Pension Cost and Net Pension Obligation

The state's annual pension cost and net pension obligation or asset for fiscal 2012 is presented below.

Annual Pension Cost and Net Pension Obligation/Asset

(Amounts in Thousands)

	ERS	LECOS	JRS1	JRS2	TRS
Annual Required Contribution (ARC)	\$ 704,853	\$35,057	\$ 21,424	\$10,716	\$ 2,780,976
Interest on Net Pension Obligation (NPO)	59,452	3,053	5,713	(400)	84,119
Adjustment to ARC	(44,627)	(2,292)	(6,104)	300	(63,128)
Annual Pension Cost	<u>719,678</u>	<u>35,818</u>	<u>21,033</u>	<u>10,616</u>	<u>2,801,967</u>
Employer Contributions Made	<u>(346,656)</u>	<u>3</u>	<u>(26,464)</u>	<u>(4,151)</u>	<u>(2,052,381)</u>
Increase (Decrease) in NPO	<u>373,022</u>	<u>35,821</u>	<u>(5,431)</u>	<u>6,465</u>	<u>749,586</u>
Net Pension Obligation/(Asset), September 1, 2011	<u>743,151</u>	<u>38,169</u>	<u>71,408</u>	<u>(4,997)</u>	<u>1,051,481</u>
Net Pension Obligation/(Asset), August 31, 2012*	<u>\$ 1,116,173</u>	<u>\$73,990</u>	<u>\$ 65,977</u>	<u>\$ 1,468</u>	<u>\$ 1,801,067</u>

* See the "Actuarial Methods and Assumptions" table for actuarial assumptions used in determining cost and obligation.

Three-Year Trend Information

(Amounts in Thousands)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation/(Asset)
ERS			
08/31/12	\$ 719,678	48.2%	\$ 1,116,173
08/31/11	715,931	57.8%	743,151
08/31/10	634,439	63.0%	440,823
LECOS			
08/31/12	\$ 35,818	0.0% *	\$ 73,990
08/31/11	36,953	65.6%	38,169
08/31/10	34,141	81.4%	25,444
JRS1			
08/31/12	\$ 21,033	125.8%	\$ 65,977
08/31/11	22,651	119.1%	71,408
08/31/10	23,014	118.6%	75,745
JRS2			
08/31/12	\$ 10,616	39.1%	\$ 1,468
08/31/11	11,512	103.7%	(4,997)
08/31/10	12,066	95.4%	(4,576)
TRS			
08/31/12	\$ 2,801,967	73.2%	\$ 1,801,067
08/31/11	2,740,560	85.1%	1,051,481
08/31/10	2,667,179	86.1%	637,713

* In 2011, the 82nd Legislature did not appropriate any state funding for the LECOS plan for the fiscal year ending Aug. 31, 2012.

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due.

The table at left presents the three-year trend information regarding annual pension cost and the net pension obligations of the plans.

Funded Status

Information on the state's pension plans funded status for each plan as of Aug. 31, 2012, is presented in the table below.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, provides multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Funded Status

(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
ERS						
08/31/12	\$ 24,272,514	\$ 29,377,069	\$ 5,104,555	82.6%	\$ 5,676,509	89.9%
LECOS						
08/31/12	\$ 832,451	\$ 1,015,668	\$ 183,217	82.0%	\$ 1,498,979	12.2%
JRS1						
08/31/12	\$ 0	\$ 232,922	\$ 232,922	0.0%	\$ 2,200	10,587.4%
JRS2						
08/31/12	\$ 300,433	\$ 315,199	\$ 14,766	95.3%	\$ 68,778	21.5%
TRS						
08/31/12	\$ 118,326,042	\$ 144,427,226	\$ 26,101,184	81.9%	\$ 35,444,569	73.6%

Included in the audited financial reports for ERS and TRS are:

- Schedules of funding progress that include historical trend information about the actuarially determined funded status of the plan from a long-term on-going plan perspective and the progress made in accumulating sufficient assets to pay benefits when due
- Schedules of employer contributions that include historical trend information about the annual required contributions (ARC) of the employer and the contributions made by the employers in relation to the ARC

Texas Guaranteed Student Loan Corporation

The Texas Guaranteed Student Loan Corporation (TGS LC), a discrete component unit of the state, maintains its own defined contribution retirement plan, the TGS LC Money Purchase Pension Plan and Trust (the Plan). The Plan covers substantially all employees of the TGS LC. As of June 30, 2012, there were 700 participants in the Plan. Employees do not contribute to the Plan; TGS LC's contributions to the Plan are generally based on 9 percent of gross annual salaries, net of forfeitures. Total payroll and covered payroll was approximately \$38.8 million and \$37.6 million, respectively, in the Plan year ended June 30, 2012. Total TGS LC contributions were approximately \$3.2 million for the fiscal year ended Sept. 30, 2012. Plan amendments are subject to the Plan's Board of Trustees' approval and the TGS LC Board of Directors' ratification.

NOTE 10

Deferred Compensation

The state of Texas offers two deferred compensation plans to all state employees. One was established in accordance with Internal Revenue Code, Section 457.

The second was established in accordance with Internal Revenue Code, Section 401(k). All costs of administering and funding these programs are the responsibility of plan participants. The assets of the two plans remain the property of the contributing employees and are not presented in the accompanying financial statements. The state makes no contributions to either plan, the assets do not belong to the state and the state has no liability related to the plans.

The University of Texas System (UT) offers its own deferred compensation plan, created in accordance with Internal Revenue Code, Section 457(b). All UT employees are eligible to participate in UT's plan and do not participate in the plan offered by the state of Texas. All investments, amounts, property and rights held under the deferred compensation trust fund are held for the exclusive benefit of participants and beneficiaries at the fair market value of the plan account for each participant. UT has no liability under the plan.

NOTE 11

Postemployment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the state of Texas contributes to four plans that provide health care and life insurance benefits for retired employees, their spouses and beneficiaries. These other postemployment benefits (OPEB) are authorized by statute and contributions are established by the General Appropriations Act. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years.

The state of Texas is a participating employer in three different OPEB plans and is an on-behalf contributor to one plan. The financial statement recognition and note disclosure requirements in GASB Statement

No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, were applied separately for each plan. The following note disclosures are organized by OPEB plan administrator.

University of Texas and Texas A&M University Systems

The state of Texas contributes to two single-employer defined benefit retiree health care and life insurance benefit plans: the UT System Employee Group Insurance Program (UT Plan) and A&M System Group Insurance Program (A&M Plan). The UT Plan is administered by the University of Texas System and the A&M Plan is administered by the Texas A&M University System.

The University of Texas System (UT) and the Texas A&M University System (A&M) each issue a publically available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to the systems at the following addresses:

University of Texas System
601 Colorado Street
Austin, Texas 78701-2982

Texas A&M University System
200 Technology Way
College Station, Texas 77845

Plan Descriptions

Each plan provides separate postemployment health care and life insurance coverage to university system retirees, surviving spouses and beneficiaries. UT and A&M are part of the state of Texas primary government. Employees of these systems are considered to be state employees. Benefit provisions for the UT and A&M plans are established and amended by the administering systems as allowed under Texas Insurance Code,

Chapter 1601. Retiree eligibility for insurance continuation after employment is determined by the Legislature and is subject to change.

Funding Policy

The university system and member contribution rates are determined annually by each system based on the recommendations of the employee benefits office and consulting actuaries. The plan rates are based on the plan costs expected to be incurred, the funds appropriated for the plans and the funding policy established by the Legislature in connection with benefits provided through the plan. Amounts contributed by the state are currently based on pay-as-you-go financing requirements determined during each legislative session. State contribution requirements are established and may be amended by the Legislature. The three-year history of employer contributions and annual OPEB costs is presented in the table below.

Three-Year Trend Information

(Amounts in Thousands)

Fiscal Year Ending	Employer Contribution	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
UT Plan				
8/31/12	\$ 142,737	\$ 639,952	22.3%	\$ 2,263,867
8/31/11	124,280	595,169	20.9%	1,766,652
8/31/10	117,023	571,761	20.5%	1,295,763
A&M Plan				
8/31/12	\$ 63,131	\$ 190,200	33.2%	\$ 603,878
8/31/11	40,489	174,919	23.1%	476,809
8/31/10	40,174	162,680	24.7%	342,379

For the fiscal year ended Aug. 31, 2012, the state made monthly contributions for health care and life insurance to the UT and A&M plans. Contribution rates for the state and retirees are presented on the following page. Costs are estimated by an actuary for claims expected to be paid during the year. The retiree contributes any premium over and above state contributions.

Required Contribution Rates – Retiree Health Care and Life Insurance Premium

For the Fiscal Year Ended August 31, 2012

Level of Coverage	UT Plan		A&M Plan	
	Employer	Plan Member	Employer	Plan Member*
Retiree Only	\$462	\$	\$367	\$ 99
Retiree/Spouse	705	199	552	284
Retiree/Children	617	208	482	215
Retiree/Family	861	392	644	377

* Plan member contribution for health insurance only. There is no plan member contribution for basic life

Annual OPEB Cost and Net OPEB Obligation

The state's annual OPEB cost for the UT and A&M plans is calculated based on the employer annual required contributions (ARC). The ARC is an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period no greater than 30 years. The following table shows the components of the annual OPEB cost for the UT and A&M plans for fiscal 2012.

Annual OPEB Cost and Net OPEB Obligation

(Amounts in Thousands)

	UT Plan	A&M Plan
Annual Required Contribution, ARC	\$ 607,827	\$180,940
Interest on Net OPEB Obligation	123,666	34,807
Adjustment to ARC	(91,541)	(25,547)
Annual OPEB Cost	639,952	190,200
Employer Contributions Made	(142,737)	(63,131)
Increase in Net OPEB Obligation	497,215	127,069
Net OPEB Obligation, September 1, 2011	1,766,652	476,809
Net OPEB Obligation, August 31, 2012	\$2,263,867	\$603,878

Funded Status and Funding Progress

The funded status of the UT and A&M plans as of Aug. 31, 2012, is disclosed below.

Funded Status

(Amounts in Thousands)

	UT Plan	A&M Plan
Actuarial Valuation Date	Dec. 31, 2010	Sept. 1, 2010
Actuarial Accrued Liability (AAL)	\$ 5,956,798	\$ 1,854,690
Actuarial Value of Plan Assets	0	0
Unfunded Actuarial Accrued Liability (UAAL)	\$ 5,956,798	\$ 1,854,690
Funded Ratio (actuarial value of plan assets/AAL)	0.0%	0.0%
Covered Payroll (active plan members)	\$ 5,309,413	\$ 1,313,538
UAAL as a Percentage of Covered Payroll	112.2%	141.2%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress is presented as required supplementary information following the notes to the financial statements. The schedule presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Since there are no plan assets for UT and A&M plans, the actuarial accrued liability for these two plans continues to increase.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of

each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used in the UT and A&M plan valuations include techniques designed to reduce short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations. See the table below for additional detail on the actuarial methods and assumptions used in the UT plan and A&M plan valuations.

Summary of Actuarial Methods and Assumptions

	UT Plan	A&M Plan
Actuarial Valuation Date	Dec. 31, 2010	Sept. 1, 2010
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Open	Level Percent Open
Amortization Period	30 years	30 years
Asset Valuation Method	Market	Market
Actuarial Assumptions:		
Projected Salary Increases	4.75% to 7.75%	3.5%
Investment Rate of Return	7%	7.3%
Includes Inflation at	3.5%	3%
Health Care Trend Rates	8% initial 5.5% ultimate	10% initial 5% ultimate

Employees Retirement System of Texas

The Employees Retirement System of Texas (ERS) administers a program that provides postemployment health care, life and dental insurance benefits to retirees through the Texas Employees Group Benefits Program as authorized by Texas Insurance Code, Chapter 1551. The State Retiree Health Plan (SRHP) is a cost-sharing multiple-employer defined benefit plan with 61 participating employers.

In a cost-sharing multiple-employer plan without a special funding situation, employers recognize their annual contractually required contributions to the plan in the fund financial statements. Because SRHP

is funded by multiple employers, the GASB 45 special funding situation does not apply.

For cost-sharing multiple-employer defined benefit plans like SRHP, the amount of OPEB liability or asset is equal to the difference between contributions required and contributions made. Contractually required contributions to a cost-sharing multiple-employer OPEB plan are not required to be based on the plan ARC.

Each employer has limited note disclosure requirements under the cost-sharing multiple-employer provisions of GASB 45. No disclosure of actuarial information as it relates to the entire plan is required on individual employer reports. Instead, the OPEB plan discloses all required actuarial calculations in the notes to its financial statements and required supplementary information. ERS issues a publically available financial report that includes financial statements and required supplementary information for SRHP. That report may be obtained by writing to ERS at:

Employees Retirement System of Texas
P.O. Box 13207
Austin, Texas 78711-3207

Plan Description

Retirees of state agencies, institutions of higher education (not part of UT and A&M) and other non-state entities selected by the Legislature are eligible to receive OPEB through SRHP. Retirees must meet certain age and service requirements and have at least 10 years of service at retirement to participate in the plan. Surviving spouses and dependents of retirees are also covered by the plan. Benefit and contribution provisions of SRHP are authorized by state law and may be amended by the Legislature.

The financial statements of SRHP are reported using the accrual basis of accounting. Contributions are recognized when due, pursuant to state law. Benefits

and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

Funding Policy

The Legislature sets and has the power to amend annual state contributions to SRHP. Currently, the state pays 100 percent of eligible retiree health insurance premiums and 50 percent of dependents' premiums. The retiree contributes any premium over and above state contributions. The table below summarizes the maximum monthly state and retiree contributions toward the health and basic life premiums of eligible retirees.

Required Contribution Rates – Retiree Health Care and Life Insurance Premium

For the Fiscal Year Ended August 31, 2012

Level of Coverage	ERS SRHP	
	Employer	Plan Member
Retiree Only	\$438	\$
Retiree/Spouse	689	262
Retiree/Children	606	176
Retiree/Family	857	438

Contractually required contributions to the plan are currently based on the annual pay-as-you-go expenses of SRHP. In fiscal 2012 the state contributed \$425 million to SRHP, which equaled the required contribution as established by the Legislature. In fiscal 2011 and fiscal 2010, the state contributed \$394.2 million and \$432.4 million, respectively. These contributions also equaled the contribution required by the Legislature.

Teacher Retirement System of Texas

The Teacher Retirement System of Texas (TRS) administers a program that provides benefits to public school district retirees with at least 10 years of service. The Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit plan with 1,248 participating

employers, provides a free basic level of coverage for eligible retirees and optional coverage for eligible retirees and their dependents.

The state of Texas is not an employer in the TRS-Care OPEB plan and is not legally required to continue contributing benefits. A special funding situation is not created because costs are shared between the state and the many participating non-state school district employers. The fiscal 2012 contributions to the TRS-Care OPEB plan are displayed below.

Schedule of Contributions from the Employers and Other Contributing Entities

For the Fiscal Year Ended August 31, 2012
(Amounts in Thousands)

	TRS-Care
From Reporting Entities	\$ 154,608
On Behalf From State	272,029
On Behalf From Federal Government	68,634
	<u>\$495,271</u>

TRS issues a publically available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by writing to TRS at:

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698

Plan Description

Basic coverage includes participation in a major medical group health insurance plan with deductibles based upon enrollment in Part A or Part B of Medicare. Eligibility provisions of the TRS-Care plan are established in Texas Insurance Code, Chapter 1575.

The financial statements for TRS-Care are reported using the accrual basis of accounting. Contributions are recognized in the period in which amounts are due,

pursuant to state law. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

Funding Policy

Funding for free basic coverage is provided based on public school district payroll. The state and active school employee contribution rates are 1 percent and 0.65 percent of school district payroll, respectively, with school districts also contributing 0.55 percent of payroll.

TRS-Care retiree health care and life insurance benefits are financed on a pay-as-you-go basis. The expenditures are recognized when reimbursements are made for claims paid by non-state entities or when premiums are paid.

Medicare Part D

In fiscal 2012 the administrators of each OPEB plan received payments from the federal government pursuant to the retiree drug subsidy provisions of Medicare Part D. On-behalf payments are recorded as revenues and expenses of each plan. The OPEB administrators reported the following amounts of Medicare Part D payments from the federal government in fiscal 2012.

Medicare Part D Receipts

For the Fiscal Year Ended August 31, 2012
(Amounts in Thousands)

UT Plan	\$ 9,757
A&M Plan	3,834
ERS SRHP	39,612
TRS-Care	71,576
	<u>\$124,779</u>

NOTE 12

Interfund Activity and Transactions

Interfund activity refers to financial interactions between funds and/or blended component units and is restricted to internal events. Interfund transactions refer to financial interactions with legally separate entities, i.e., discrete component units and other governments, and are restricted to external events.

Reciprocal Interfund Activity

Interfund loans are reciprocal interfund activity with a requirement for repayment. These loans are reported as interfund receivables/payables and are classified as either current or noncurrent.

Interfund services are sales and purchases of goods and services for a price approximating their external exchange value. This activity is reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as receivables and payables.

Nonreciprocal Interfund Activity

Interfund transfers are nonreciprocal interfund activity. This activity refers to flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing sources or uses. In proprietary funds, transfers are reported after nonoperating revenues and expenses. The majority of transfers are legally authorized by statute or bond covenant to move amounts from one fund to another. Amounts not transferred at fiscal year-end are accrued as "due from/due to." Activity occurring within the same fund is eliminated. Additional eliminations are made and transfers in and out are netted and presented in the government-wide statement of activities as "transfers-internal activities."

Certain reclassifications and eliminations are made between the fund financial statements and the government-wide financial statements. Resource flows between the primary government and its discretely presented component units are reported as revenues and expenses, as if they were external transactions, on the fund financial statements and the government-wide financial statements. Transfers between the governmental or business-type activities and fiduciary funds are reported as transfers on the fund financial statements and are reclassified to revenues and expenses, as if they were external transactions, on the government-wide financial statements.

Due from/due to amounts between the primary government and the discretely presented component units are reported separately from due from/due to amounts between funds in the fund financial statements and the government-wide financial statements. Due from/due to amounts between governmental or business-type activities and fiduciary funds are reported as due from/due to amounts between funds in the fund financial statements and are reclassified to receivables from fiduciary funds/payables to fiduciary funds, as if they were external transactions, on the government-wide financial statements.

Interfund reimbursements are repayments from funds responsible for payment of expenditures or expenses to the funds that actually made the payment. These reimbursements are reported in the appropriate expenditure/expense category in the fund responsible for the payment.

For the state of Texas, routine transfers are those transfers from unrestricted revenue collected in the general revenue fund to finance various programs accounted for in other funds in accordance with the General Appropriations Act, which is the primary budget document for the state of Texas. Other transfers are legally authorized by statute to move resources from one fund to another. The interfund receivables/payables include loans for energy efficiency programs of approximately \$38.3 million. There is also a \$757.2 million receivable for Texas A&M System from the University of Texas System from permanent university funds. The earnings will be used for bond payments. Significant transfers include a \$2.7 billion transfer from the property tax relief fund and a \$1.1 billion transfer from the lottery fund to the foundation school fund for educational programs. There is also a \$1 billion transfer from the permanent school fund to the available school fund. The detail of interfund activity and transactions by fund type and category as of Aug. 31, 2012, is presented in the following tables.

Interfund Receivables/Payables

(Amounts in Thousands)

Fund Type	Current		Noncurrent		Total	
	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables
Governmental Funds						
General Fund	\$ 3,869	\$ 999	\$ 34,629	\$ 2,873	\$ 38,498	\$ 3,872
Nonmajor Governmental Funds	457	228		2,710	457	2,938
	<u>4,326</u>	<u>1,227</u>	<u>34,629</u>	<u>5,583</u>	<u>38,955</u>	<u>6,810</u>
Proprietary Funds						
Colleges and Universities	22,390	25,794	734,790	766,546	757,180	792,340
Nonmajor Enterprise Funds	394	89	2,710		3,104	89
	<u>22,784</u>	<u>25,883</u>	<u>737,500</u>	<u>766,546</u>	<u>760,284</u>	<u>792,429</u>
Total	<u>\$ 27,110</u>	<u>\$ 27,110</u>	<u>\$772,129</u>	<u>\$772,129</u>	<u>\$799,239</u>	<u>\$799,239</u>

Due From/Due To

(Amounts in Thousands)

Fund Type	Due From			Due To		
	Other Funds	Primary Government	Component Unit	Other Funds	Primary Government	Component Unit
Governmental Funds						
General Fund	\$ 132,857	\$	\$ 89	\$ 1,138,033	\$	\$
State Highway Fund	252,515			4,109		
Permanent School Fund				451		
Nonmajor Governmental Funds	73,450			67,974		
	<u>458,822</u>	<u>0</u>	<u>89</u>	<u>1,210,567</u>	<u>0</u>	<u>0</u>
Proprietary Funds						
Colleges and Universities	848,173			26,699		
Unemployment Trust Fund	12,712					
Lottery Fund	578			4,095		
Nonmajor Enterprise Funds	41,267			3,165		
Internal Service Fund	21,332			1,636		
	<u>924,062</u>	<u>0</u>	<u>0</u>	<u>35,595</u>	<u>0</u>	<u>0</u>
Fiduciary Funds						
Pension and Other Employee Benefit Trust Funds	11,737			122,128		
Private-Purpose Trust Funds	6			8		
Agency Funds	900			27,229		
	<u>12,643</u>	<u>0</u>	<u>0</u>	<u>149,365</u>	<u>0</u>	<u>0</u>
Discretely Presented Component Units	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>89</u>	<u>0</u>
Total	<u>\$ 1,395,527</u>	<u>\$ 0</u>	<u>\$ 89</u>	<u>\$ 1,395,527</u>	<u>\$ 89</u>	<u>\$ 0</u>

Internal Balances per the Government-wide Financial Statements

(Amounts in Thousands)

	Governmental Activities	Business-Type Activities	Total
NONCURRENT ASSETS			
Internal Balances—Receivables	\$ 29,046	\$ (29,046)	\$ 0
CURRENT LIABILITIES			
Internal Balances—Payables	\$ 865,668	\$ (865,668)	\$ 0

Transfers – Internal Activities per the Government-wide Financial Statements

(Amounts in Thousands)

Fund Category	Other Funds
Governmental Activities	\$ (3,944,781)
Business-Type Activities	\$ 3,944,781

Transfers In/Out

(Amounts in Thousands)

Fund Type	Transfers In	Transfers Out
	Other Funds	Other Funds
Governmental Funds		
General Fund	\$ 4,891,199	\$ 5,779,918
State Highway Fund	433,409	453,685
Permanent School Fund		1,020,887
Nonmajor Governmental Funds	1,953,305	3,994,482
	<u>7,277,913</u>	<u>11,248,972</u>
Proprietary Funds		
Colleges and Universities	5,582,453	576,426
Unemployment Trust Fund	87,350	26,102
Lottery Fund		1,155,523
Nonmajor Enterprise Funds	68,356	35,286
	<u>5,738,159</u>	<u>1,793,337</u>
Fiduciary Funds		
Pension and Other Employee Benefit Trust Funds	114,821	88,396
Private-Purpose Trust Funds		188
	<u>114,821</u>	<u>88,584</u>
Total	<u>\$ 13,130,893</u>	<u>\$ 13,130,893</u>

NOTE 13

Classification of Fund Balances/ Net Position

The table below presents a summary of the Aug. 31, 2012, governmental fund balances by fund type and specific purpose.

The classifications of nonspendable, restricted, committed, assigned and unassigned are the fund balance classifications according to GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. With the exception of nonspendable fund balances, fund balances are presented based on

each fund's specific purpose as required by GASB 54. For the general fund, special revenue funds, capital projects funds and nonmajor permanent funds, the specific purpose of the fund balance is determined by the governmental function for which the funds are restricted, committed, assigned or unassigned. The governmental function is assigned to an agency and all fund balances reported by the agency reflect that function.

If a fund reported by an agency is exclusively for another governmental function and the amount is significant, the balance is reclassified to the appropriate governmental function.

Governmental Fund Balances – Nonspendable, Restricted, Committed, Assigned and Unassigned

(Amounts in Thousands)

MAJOR FUNDS

General Fund

Nonspendable:

Inventory	\$ 199,562
Prepaid Items	1,589
Long-term Receivables	476,630
	<u>\$ 677,781</u>

Restricted for:

General Government	\$ 783,162
Education	342,918
Health and Human Services	351,224
Public Safety and Corrections	45,632
Natural Resources and Recreation	240,799
	<u>\$ 1,763,735</u>

Committed to:

General Government	\$ 1,851,551
Education	965,245
Health and Human Services	809,789
Public Safety and Corrections	87,862
Transportation	330
Natural Resources and Recreation	1,302,802
Regulatory Services	265,746
	<u>\$ 5,283,325</u>

Assigned to:

General Government	\$ 36,865
Health and Human Services	6,205
Natural Resources	841
Regulatory Services	165
	<u>\$ 44,076</u>

MAJOR FUNDS (concluded)

Unassigned:

General Government	\$ 914,770
Education	180,155
Employee Benefits	105
Health and Human Services	(321,263)
Public Safety and Corrections	135,050
Transportation	79,747
Natural Resources and Recreation	95,914
Regulatory Services	10,166
	<u>\$ 1,094,644</u>

State Highway Fund

Nonspendable:

Inventory	\$ 125,971
Prepaid Items	2,097
	<u>\$ 128,068</u>

Restricted for:

General Government	\$ 4,115
Public Safety and Corrections	7,087
Transportation	1,022,783
	<u>\$ 1,033,985</u>

Committed to:

Transportation	\$ 201,935
	<u>\$ 201,935</u>

Unassigned:

Transportation	\$ (511,086)
	<u>\$ (511,086)</u>

Permanent School Fund

Nonspendable:

Permanent Fund Principal	\$ 12,041,074
Prepaid Items	6
	<u>\$ 12,041,080</u>

Restricted for:

Public School Support	16,761,845
	<u>\$ 16,761,845</u>

Concluded on the following page

Capital projects fund balances are often reported by two agencies with different governmental functions. In these instances, the fund balance is reported in the function for the project. The function is determined by the specific purpose reflected for each column in the combining balance sheet – non-major capital projects funds.

The specific purpose for debt service funds is considered debt service.

Restrictions of net position are listed on the face of the government-wide and proprietary statements of net position. Per GASB 54, balances reported as restricted in the fund financial statements plus the nonspendable permanent fund corpus balances are reported as restricted in the statement of net position. All other fund financial balances are reported as unrestricted in the statement of net position.

Of the \$14.1 billion reported as unrestricted net position, \$6.1 billion is for the economic stabilization fund. The economic stabilization fund was authorized by the Texas Constitution, Article III, Section 49g. In November of each year a transfer is made equal to 75 percent of the excess of the prior fiscal year collections for natural gas and crude oil production taxes over 1987 collections. The Legislature may appropriate, by a three-fifths vote of the members present in each house, amounts in the ESF for spending that does not exceed the amount of any unanticipated deficit or revenue decline during a biennium. The Legislature may also appropriate any amount from the ESF for any purpose only if approved by at least two-thirds of the members present in each house.

Governmental Fund Balances – Nonspendable, Restricted, Committed, Assigned and Unassigned (concluded)

(Amounts in Thousands)

NONMAJOR FUNDS

Special Revenue Funds

Nonspendable:

Inventory	\$ 154
Prepaid Items	5
	<u>\$ 159</u>

Restricted for:

General Government	\$ 48,532
Education	1,297,183
Health and Human Services	1,028
Public Safety and Corrections	2,148
Natural Resources and Recreation	1,120,234
	<u>\$ 2,469,125</u>

Committed to:

General Government	\$ 41,632
Employee Benefits	17
Public Safety and Corrections	7,830
Natural Resources and Recreation	209
Regulatory Services	753,688
	<u>\$ 803,376</u>

Assigned to:

General Government	\$ 1,049
Education	988
Transportation	171
	<u>\$ 2,208</u>

Debt Service Funds

Restricted for:

Debt Service	\$ 1,389,875
	<u>\$ 1,389,875</u>

NONMAJOR FUNDS (concluded)

Capital Projects Funds

Nonspendable:

Inventory	\$ 3
	<u>\$ 3</u>

Restricted for:

General Government	\$ 85,507
Education	139
Health and Human Services	10,029
Public Safety and Corrections	32,141
Transportation	100,922
Natural Resources and Recreation	13,184
	<u>\$ 241,922</u>

Permanent Funds

Nonspendable:

Permanent Fund Principal	\$ 745,211
	<u>\$ 745,211</u>

Restricted for:

Natural Resources and Recreation	\$ 352
	<u>\$ 352</u>

Committed to:

Education	\$ 7,676
	<u>\$ 7,676</u>

ALL GOVERNMENTAL FUNDS

Nonspendable	\$ 13,592,302
Restricted	23,660,839
Committed	6,296,312
Assigned	46,284
Unassigned	583,558
Total Fund Balances – Governmental Funds	<u>\$ 44,179,295</u>

NOTE 14

Restatement of Beginning Balances

During fiscal 2012, certain accounting changes and adjustments were made that required the restatement of

fund balances or net position. The beginning balances and all related restatements for the components of the state's financial reporting entity are included below and discussed on the following page.

Restatements to Fund Balances/Net Position

(Amounts in Thousands)

	September 1, 2011, As Previously Reported	Restatements	September 1, 2011, As Restated
GOVERNMENTAL FUNDS AND GOVERNMENTAL ACTIVITIES			
Major Funds:			
General Fund	\$ 7,184,566	\$ (310,879)	\$ 6,873,687
State Highway Fund	751,539	383,745	1,135,284
Permanent School Fund	26,947,258		26,947,258
Total Major Funds	<u>34,883,363</u>	<u>72,866</u>	<u>34,956,229</u>
Nonmajor Funds:			
Special Revenue Funds	4,002,160	(878,415)	3,123,745
Debt Service Funds	1,554,996	(2,252)	1,552,744
Capital Project Funds	868,892	(54)	868,838
Permanent Funds	757,309	(15,756)	741,553
Total Nonmajor Funds	<u>7,183,357</u>	<u>(896,477)</u>	<u>6,286,880</u>
Total Governmental Funds	<u>42,066,720</u>	<u>(823,611)</u>	<u>41,243,109</u>
Governmental Activities Adjustments:			
Capital Assets	75,667,494	(438,234)	75,229,260
Long-Term Liabilities	(21,493,574)	915,423	(20,578,151)
Deferred Revenue	784,063		784,063
Internal Service Fund	227,984		227,984
Total Governmental Activities Adjustments	<u>55,185,967</u>	<u>477,189</u>	<u>55,663,156</u>
Total Governmental Activities	<u>97,252,687</u>	<u>(346,422)</u>	<u>96,906,265</u>
BUSINESS-TYPE ACTIVITIES			
Major Funds:			
Colleges and Universities	39,104,136	(17,976)	39,086,160
Unemployment Trust Fund	(812,922)		(812,922)
Lottery Fund	117,985		117,985
Total Major Funds	<u>38,409,199</u>	<u>(17,976)</u>	<u>38,391,223</u>
Nonmajor Enterprise Funds	<u>3,725,029</u>	<u>(363)</u>	<u>3,724,666</u>
Total Business-Type Activities	<u>42,134,228</u>	<u>(18,339)</u>	<u>42,115,889</u>
Total Primary Government	<u>139,386,915</u>	<u>(364,761)</u>	<u>139,022,154</u>
FIDUCIARY FUNDS			
Pension and Other Employee Benefit Trust Funds	130,580,910	304	130,581,214
External Investment Trust Funds	13,966,146		13,966,146
Private-Purpose Trust Funds	2,846,911		2,846,911
Total Fiduciary Funds	<u>147,393,967</u>	<u>304</u>	<u>147,394,271</u>
Discretely Presented Component Units	<u>888,310</u>	<u>(4,440)</u>	<u>883,870</u>
Total Reporting Entity	<u>\$ 287,669,192</u>	<u>\$ (368,897)</u>	<u>\$ 287,300,295</u>

Restatements by Activity

(Amounts in Thousands)

Restatements	Governmental Activities	Business-Type Activities	Fiduciary Activities	Component Units	Total
A. Capital Asset Adjustments	\$ (438,234)	\$ (25,448)	\$	\$ 182	\$ (463,500)
B. State Highway Fund Nontraditional Agreements	99,494				99,494
C. Conduit Debt	100,225				100,225
D. Federal CDBG Disaster Grant	(57,022)				(57,022)
E. Miscellaneous Adjustments	(50,885)	7,109	304	(4,622)	(48,094)
Total Restatements	<u>\$ (346,422)</u>	<u>\$ (18,339)</u>	<u>\$ 304</u>	<u>\$ (4,440)</u>	<u>\$ (368,897)</u>

Restatements are grouped into the following five categories:

- A. These restatements are for adjustments to capital assets and accumulated depreciation or amortization. The restatements include an amount of \$628.3 million to correct an overstatement of toll projects related to nontraditional agreements of the state highway fund. These toll projects are under the ownership of a local toll project entity under state law and should not be reported as state's assets.
- B. This restatement is to correct accounting errors other than those in capital assets pertinent to non-traditional agreements of the state highway projects.
- C. This restatement is to correct prior year bond issuances of a blended component unit of the state that were reported on the state's financial statements. These bonds were determined to be conduit debt in fiscal 2012 and only require a note disclosure. The restatement includes \$1 billion for revenue bonds payable and \$910 million for the associated loans receivable.
- D. This restatement is to correct the prior year accrued expenditures related to the disaster grant portion of the federal Community Development Block Grant (CDBG).
- E. These are miscellaneous restatements necessary to correct accounting errors in the prior period or recognize changes in the application of accounting principles and methodologies, including restatements for funds reclassified to a different fund type, to improve consistency within the financial reporting entity.

NOTE 15

Commitments and Contingencies

COMMITMENTS

Outstanding Loan Commitments

The state makes loan commitments to political subdivisions for financing purposes. These loan commitments are provided from remaining current bond proceeds, future bond proceeds and federal drawdowns. The Texas Water Development Board had loan commitments totaling \$577.2 million as of Aug. 31, 2012. The Texas Department of Transportation (TxDOT) has an equity loan agreement of \$6 billion with North Texas Tollway Authority with a maximum amount of \$6 billion to be used for State Highway (SH) 161 Project in Dallas.

Investment Funds

As of Aug. 31, 2012, state agencies, public employee retirement systems and institutions of higher education had entered into capital commitments with investment managers for future funding of investment funds. Investment funds include hedge fund pools, private investment pools, public market funds and other alternative investments managed by external investment managers. As of Aug. 31, 2012, the remaining commitment was \$26.9 billion.

Construction and Other Commitments

As of Aug. 31, 2012, TxDOT had contractual commitments of approximately \$6.1 billion for construction and comprehensive developments. These are not recognized liabilities because the terms of the contracts or agreements were not met and benefits were not received as of the end of the fiscal year.

Additionally, TxDOT is party to several pass-through toll agreements with local entities. Under these agreements, the local entities will finance, design and construct certain roadway projects and may maintain them for a specified period of time. Upon completion of the projects, TxDOT will make payments (i.e., pass-through toll payments) to the entities based on traffic utilization of the roadways and other payment requirements governed by the agreements. Motorists traveling these roadways will not be required to pay a toll. Estimated payments under the agreements are included as notes payable as each project is completed. Liabilities for uncompleted agreements are not recognized. As of Aug. 31, 2012, the amount of unrealized payables for uncompleted pass-through toll agreements was \$541 million. In addition, TxDOT has equity grant commitments of \$553.6 million to various local toll project entities.

CONTINGENCIES

Protested Tax Payments

As of Aug. 31, 2012, pending litigation filed by taxpayers seeking refunds of state taxes totaled \$203.8

million. The protested taxes include sales, franchise, insurance and other taxes. Although the outcome of these cases cannot presently be determined, adverse ruling in some of them could result in significant additional refunds.

Unpaid Claims and Lawsuits

A variety of cases that may affect the state were filed as of Aug. 31, 2012. These claims total \$85.9 million and include a number of lawsuits and claims that may be significant to individual state agencies. While the outcome of these cases cannot be determined, adverse rulings could result in additional liabilities. Additionally, TxDOT filed 800 cases exercising eminent domain for \$256 million.

Federal Assistance

The state receives federal financial assistance subject to review or audit by federal grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance as a result of the audits may become a liability of the state but is considered immaterial to its overall financial condition.

The Texas Office of the Attorney General and the Texas Health and Human Services Commission's Office of Inspector General investigate allegations of overpayments to Medicaid providers. Until investigations are completed, the total amount of overpayments to providers is potentially subject to recovery (amounts associated with the "open case list") and may represent a corresponding potential liability for the federal share of these payments – about 60 to 65 percent of that total.

An actual liability is realized only after a completed investigation substantiates an overpayment and the provider is notified of the results and given an opportunity to submit rebuttal or claims for offsets. The percent of total dollars on the open case list that are ultimately

confirmed as overpayments cannot be reliably predicted. The state estimates the amounts that may become payable to the federal government will be immaterial to its overall financial condition.

Guaranteed Debt

In 1983, the voters of the state approved a constitutional amendment that provides for the guarantee by the permanent school fund of up to a defined capacity of \$75.4 billion in school district bonds as of Aug. 31, 2012. Approval by the state of Texas attorney general is required for each bond issuance. In the event of a default by a school district, the permanent school fund will transfer to the paying agent/registrar an amount necessary to pay the maturing or matured principal and/or interest to bondholders. As of Aug. 31, 2012, \$53.6 billion in debt was guaranteed by the permanent school fund for outstanding bond issues in 800 school districts in the state. Under state statute, payments by the permanent school fund on such guarantees are recoverable from the state of Texas. The \$53.6 billion represents the principal amount and does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities), nor does it include interest on current interest bonds or variable rate notes. The amount also excludes bonds that were refunded and released from the bond guarantee program. From the inception of the program through Aug. 31, 2012, none of the school districts with guaranteed debt have defaulted on the guaranteed debt.

TxDOT is proceeding with the development of the SH 99 (Grand Parkway) project. TxDOT expects to pay expenditures in connection with the project prior to the issuance of obligations to finance the portion of the project for which TxDOT has jurisdiction. The Grand Parkway Transportation Corporation, a blended component unit of the state, expects to incur debt, with the aggregate maximum amount of project expenditures of \$600 million being incurred prior to such issuance.

The debt would be one or more separate series of various types of obligations for the purpose of paying the costs of the project prior to issuance of such obligations. TxDOT is authorized to be reimbursed for such payments for the project when the obligations are issued to finance the project.

Arbitrage

Rebatable arbitrage is defined by Internal Revenue Code, Section 148, as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. State agencies and institutions of higher education responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue and, therefore, limit any state arbitrage liability. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

Derivatives with Contingent Features

All of the Department of Housing and Community Affairs's (TDHCA) derivative instruments include provisions that require posting collateral in the event its credit rating falls below a specified level as issued by Moody's Investor Service and Standard & Poor's. If TDHCA fails to post eligible collateral, the derivative instrument may be terminated by the counterparty. As of Aug. 31, 2012, the aggregate fair value of all derivative instruments with collateral provisions was \$46.9 million. If the posting requirements had been triggered, TDHCA would have been required to post eligible collateral equal to the aggregate fair value of the derivative instruments. TDHCA posted no collateral as of Aug. 31, 2012.

The Teacher Retirement System of Texas (TRS) is party to derivative instruments with provisions that

require TRS to post collateral in the event that the fair value surpasses a specified contractual threshold. As of Aug. 31, 2012, the aggregate fair value of all derivative instruments with these provisions was \$82.4 million. If the collateral posting thresholds did not exist, TRS would be required to post the aggregate amount of \$3.4 million in collateral to its counterparties. TRS posted no collateral as of Aug. 31, 2012.

NOTE 16

Subsequent Events

Primary Government

Bonds and Commercial Paper Issued/Refunded

State agencies and institutions of higher education issued \$1.6 billion in new bonds and commercial paper and \$820.5 million in refunding bonds since Aug. 31, 2012. This routine activity finances state facilities, housing assistance programs, educational loans and refunds outstanding debt.

Other Subsequent Events

The Texas Workforce Commission transferred \$92.7 million of taxes to the unemployment trust fund in September 2012 in accordance with Texas Labor Code, Section 204.123. The taxes were originally deposited to the employment and training investment holding fund, an account within the general revenue fund. Texas Labor Code, Section 204.061, defines a statutory floor for the unemployment trust fund as 1 percent of total taxable wages for the four quarters ended June 30, 2012. The transfer was required because the unemployment trust fund balance was below that floor.

The Facility Concession Agreement (FCA) for the State Highway (SH) 130 Segments 5 and 6 facility provides for the developer to pay an additional concession

payment to the Texas Department of Transportation (TxDOT) if a maximum posted speed of 80 mph or 85 mph is authorized within 180 days after the service commencement date for the facility and TxDOT elects to waive increased revenue sharing that otherwise would be required. On Aug. 30, 2012, the Texas Transportation Commission authorized and directed the implementation of the maximum speed limit of 85 mph. In addition, the Commission authorized and directed TxDOT to notify the developer of TxDOT's election to waive increased revenue sharing and instead receive the additional concession payment amount of \$100 million. On Sept. 17, 2012, the TxDOT executive director provided the developer with sufficient documentation and the additional concession payment was received on Nov. 9, 2012.

The Regional Transportation Council of the North Central Texas Council of Governments allocated a portion of the SH 121 concession funding to pay off the state infrastructure bank (SIB) loan balance related to segments I through IV of the President George Bush Turnpike Authority. During the October 2012 meeting, the Texas Transportation Commission concurred with the allocation. The transfer of funds totaling approximately \$145 million from the SH 121 account to the SIB, representing the full repayment of the loan, occurred on Feb. 15, 2013.

Component Units

On Nov. 5, 2012, Texas Small Business Industrial Development Corporation, a discrete component unit of the state, notified bondholders of its intent to redeem \$7.8 million of its Floating Rate Demand Revenue Bonds on Dec. 5, 2012.

On Nov. 19, 2012, the Texas State Affordable Housing Corporation, a discrete component unit of the state, redeemed the remaining \$21.4 million in market rate bonds to close out the 2009 New Issue Bond Program.

Bonds and Commercial Paper Issued/Refunded

(Amounts in Thousands)

	Description	Amount	Issuance Date	Purpose
Department of Aging and Disability Services	General Obligation Commercial Paper Notes, Series 2008	\$ 8,000	09/12/12	Finance capital repairs and renovations for the State Supported Living Centers.
Department of Housing and Community Affairs	Residential Mortgage Revenue Bonds, Series 2009 C-4	78,070	09/13/12	Provide funds for the purchase of mortgage-backed securities guaranteed as timely payments of principal and interest by Government National Mortgage Association ("Ginnie Mae").
Midwestern State University	Revenue Financing System Bonds, Series 2012A	4,710	10/09/12	Refund Revenue Bonds, Series 2002 to reduce debt service payments.
	Revenue Financing System Bonds, Series 2012B	5,415	10/09/12	Refund Revenue and Refunding Bonds, Series 2003 to reduce debt service payments.
Texas Department of Transportation	Revenue Refunding Bonds, Series 2012A	585,330	11/27/12	Refund Series 2002A for savings.
	Revenue Refunding Bonds, Series 2012B	225,000	11/27/12	Refund Series 2009 for savings.
	General Obligation Bonds, Series 2012A	818,635	12/18/12	Fund various highway improvement projects.
	General Obligation Bonds, Series 2012B	99,570	12/18/12	Fund various highway improvement projects.
Texas Public Finance Authority	General Obligation Commercial Paper Notes, CPRIT Series A	9,600	09/06/12	To fund indirect administration, grant review and award operations and the Texas Cancer Registry Operations of the Cancer Prevention Research Institute of Texas (CPRIT).
	General Obligation Commercial Paper Notes, Series 2008	6,000	10/04/12	To fund projects for the Texas Department of State Health Services and the Texas Historical Commission.
Texas Southern University	Revenue Bonds, Series A 2012-10	55,000	09/27/12	To construct new student housing.
Texas State Affordable Housing Corporation*	Multifamily Housing Mortgage Revenue Bonds, Series 2012	71,100	09/20/12	To acquire and rehabilitate six properties.
Texas State University System	Revenue Financing System Bonds, Series 2013	100,049	01/13/13	To fund various construction and renovation projects.
Water Development Board	General Obligation Bonds, Series 2012F	29,385	09/05/12	Provide financial assistance for Economically Distressed Areas Program (EDAP) projects.
	General Obligation Bonds, Series 2012G	156,065	10/02/12	Provide financial assistance from the Texas Water Development Fund II (Dfund) for water assistance projects.
	General Obligation Bonds, Series 2013A	42,470	02/12/13	Provide financial assistance from the Water Infrastructure Fund (WIF) for water assistance projects.
University of Texas System	Permanent University Fund Taxable Commercial Paper Notes, Series B	75,000	10/02/12	To finance a variety of capital projects and equipment purchases at various institutions.
	Revenue Financing System Commercial Paper Notes, Series A	50,316	11/05/12	To finance a variety of capital projects and equipment purchases at various institutions.
Veterans Land Board	General Obligation State of Texas Veterans Bonds, Series 2012B	100,000	11/01/12	To augment the Veterans' Housing Assistance Fund II.
	Total Bond and Commercial Paper Issued/Refunded	<u>\$2,519,715</u>		

* Discretely presented component unit

NOTE 17

Risk Management

The state of Texas is exposed to various risks of loss related to property, general and employer liability, net income, and personnel. The state of Texas and its employees are covered by numerous immunities and defenses that limit some of these risks of loss, particularly in liability actions brought against the state or its employees. Remaining exposures are managed by self-insurance arrangements, contractual risk transfers, the purchase of commercial insurance or a combination of these risk financing techniques.

Estimates of liabilities for incurred but not reported claims are actuarially determined based on estimates of the ultimate cost of settling claims, using past experience adjusted for current trends and any other factors that would modify past experience. Claims liabilities include specific, incremental claims adjustment expenditures/expenses. In addition, estimated recoveries on unsettled claims, such as salvage and subrogation, are evaluated in terms of their estimated realizable value and deducted from the liability for unpaid claims. Unallocated claim adjustment expenditures/expenses are not included in the liability for claims and judgments.

There were no significant reductions in insurance coverage in the past year. Also, in the past three years, settlements have not exceeded insurance coverage.

Property and Liability

The Texas Labor Code, Chapter 412, identifies the executive director of the State Office of Risk Management (SORM) as the state risk manager. SORM operates as a full-service risk and insurance manager for the state and oversees all surety bond and property and liability insurance purchases by state agencies.

SORM administers the statewide workers' compensation program. The state does not carry commercial insurance for workers' compensation, but instead, uses

the general revenue fund to account for its risk financing activities. Certain agencies are exempt from the SORM program or elect to purchase additional insurance coverage outside of the program. The University of Texas System (UT), Texas A&M University System (A&M) and Texas Department of Transportation (TxDOT) administer separate self-insured workers' compensation programs.

Where applicable, certain agencies purchased fire and extended insurance coverage for buildings financed through the issuance of bonds. Other risks are addressed through a combination of interim financing and commercial coverage for fire and all other perils, as well as coverage for medical malpractice, torts, named windstorms, floods and other potential liabilities.

Health, Life and Dental

Insurance coverage is provided to active state employees and their dependents by one of three health plan administrators. All state employees not covered by insurance plans provided by UT and A&M are included in the Texas Employees Group Benefits Program (GBP) administered by the Employees Retirement System of Texas (ERS). Public school employees and their dependents are covered by the Texas Active School Employees Uniform Group Benefits Program (TRS-ActiveCare) administered by the Teacher Retirement System of Texas (TRS). Risk of loss is retained with self-insured plans or transferred to the insurance carrier with health maintenance organization (HMO) plans.

Texas Employee Group Benefits Program

Claims for health, life, accidental death and dismemberment (AD&D), disability and dental insurance coverages are established under the GBP. These coverages are provided through a combination of insurance contracts, a self-funded health plan, a self-funded dental indemnity plan, HMO contracts and dental health maintenance organizations (DHMO) contracts.

University of Texas System and Texas A&M University System

UT and A&M provide health insurance, dental insurance, vision insurance, life insurance, AD&D, long-term disability, short-term disability, long-term care and flexible-spending account coverages to all benefits-eligible employees. These insurance benefits are provided through both self-funded and fully insured arrangements.

Teacher Retirement System

TRS-ActiveCare is a health benefits program that offers options ranging from catastrophic coverage with reduced premiums to a comprehensive plan with near first-dollar coverage at higher premiums. TRS-ActiveCare covers members currently employed by public educational employers that participate in the plan.

TRS-ActiveCare offers a choice of four preferred provider organization plans statewide as well as HMO plans in certain service areas. The risk associated with TRS-ActiveCare is retained by the plan's participants, and no risk is transferred to the plan's administrators, employers or the state.

Changes in Claims Liability Balances

The following table presents the changes in claims liability reported in various balance sheet/statement of net position liability accounts during fiscal years ended Aug. 31, 2011, and Aug. 31, 2012. Claims and judgment amounts presented in Note 5 are also included in the table.

Changes in Claims Liability Balances

(Amounts in Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
2012	\$760,167	\$2,726,971	\$2,699,682	\$787,456
2011	\$786,122	\$2,736,829	\$2,762,784	\$760,167

Of the fiscal 2012 claims liability ending balance, \$194 million relates to long-term claims liabilities, which are reported in Note 5. The remaining \$593 million relates to the state's health, life and dental insurance programs, which are reported as accounts payable.

NOTE 18

Contested Taxes

The state may assess a claim against one or multiple taxpayers for a tax liability. Taxpayers may petition for a formal hearing before an independent administrative law judge if they wish to challenge a tax liability assessed by the state. If the request for a determination hearing is received within a specified time, the taxpayer does not have to pay the tax until a final decision is reached. As of Aug. 31, 2012, there was an estimated \$1.3 billion of assessments filed that are currently in the redetermination hearings process. Collectability of these assessments is dependent upon the decisions of administrative law judges. These assessments are not recognized as tax revenue until the administrative hearing is final. Therefore, these amounts are not included in the receivables reported in the financial statements.

NOTE 19

Component Units and Related Organizations

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. Component units can also be other organizations for which the nature and significance of their relationship with a primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. In addition, component units can be

organizations that raise and hold economic resources for the direct benefit of a government unit. Because of the closeness of their relationships with the primary government, some component units are blended as though they are part of the primary government. Most component units, however, are discretely presented. None of the component units for the state of Texas meet the criteria for major component unit presentation and those presented are for informational purposes of interested parties. The component units are reported for the year ended Aug. 31, 2012, unless indicated otherwise.

Blended Component Units

The state is financially accountable for two material blended component units. These component units are reported as if they are part of the primary government because they provide substantially all of their services directly to the state. The component units' financial data is blended in the appropriate funds within the financial statements. There are no other material blended component units of the state.

Employees Retirement System of Texas (ERS) is a legally separate entity established by the Legislature to administer benefits for officers and employees of the state. ERS is governed by a six-member board of trustees. The governor, with the advice and consent of the Senate, appoints three of the six members of the board of trustees. The state of Texas has the ability to impose its will upon ERS through its budget approval powers. Separate financial statements may be obtained by contacting ERS at P.O. Box 13207, Austin, Texas 78711.

Texas Treasury Safekeeping Trust Company (Trust Company) is a legally separate entity established by the Legislature. The Comptroller of Public Accounts is the single shareholder of the Trust Company and is charged with managing the Trust Company. The Trust Company is authorized to manage, disburse, transfer, safekeep and invest funds and securities provided by statute or belonging to state and local entities and gives

the Comptroller direct access to services provided by the Federal Reserve System. Separate financial statements may be obtained by contacting the Trust Company at 208 E. 10th St., 4th Floor, Austin, Texas 78701.

Discretely Presented Component Units

The state is financially accountable for the following legally separate entities (component units); however, the component units do not provide services entirely or almost entirely to the state. The component units' financial data is discretely presented in the component unit column of the state's government-wide financial statements.

Texas Guaranteed Student Loan Corporation (TGS LC) is a public nonprofit corporation that guarantees loans made to eligible students under the federal guaranteed student loan program. All nine members of TGS LC's board are appointed by the governor with the advice and consent of the Senate. The state of Texas imposes its will on TGS LC through its application of the Texas Sunset Act. TGS LC's liabilities are not debts of the state. TGS LC received a one-time appropriation of \$1.5 million to fund initial startup operations. TGS LC is reported for the year ended Sept. 30, 2012. Separate financial statements may be obtained by contacting TGS LC at P.O. Box 83100, Round Rock, Texas 78683-3100.

Teacher Retirement System of Texas (TRS) is a legally separate entity established by the Legislature to administer retirement and disability annuities to employees and beneficiaries of public school systems and institutions of higher education. TRS is governed by a nine-member board of trustees, three of whom are direct appointments of the governor. The remaining trustees are appointed by the governor from lists prepared by various constituent groups. TRS is subject to the budget approval powers of the Texas Legislature, and therefore is fiscally dependent on the state of Texas. Separate financial statements may be obtained

by contacting TRS at 1000 Red River St., Austin, Texas 78701.

State Bar of Texas is a public corporation and an administrative agency of the judicial branch of government. The purpose of the State Bar is to ensure that public responsibilities of the legal profession are effectively discharged. The annual budget for the State Bar of Texas must be reviewed and approved by the Supreme Court, thus making the State Bar of Texas fiscally dependent on the state of Texas. The State Bar is reported for the year ended May 31, 2012. Separate financial statements may be obtained by contacting the State Bar at 1414 Colorado St., Austin, Texas 78701.

Texas State Affordable Housing Corporation (TSAHC) was incorporated under the Texas Non-profit Corporation Act and is legally separate from the state. Its purpose is to serve the housing needs of low-income Texans, professional educators, firefighters and police officers who are first-time home buyers and are not afforded housing finance options through conventional lending channels. TSAHC operates under the name Texas Star Mortgage to provide single and multifamily loans to low-income Texans. Prior to any bonds being issued by TSAHC, the issuance must be reviewed by the Bond Review Board, which is composed of the governor, lieutenant governor, speaker of the House of Representatives and Comptroller of Public Accounts. Separate financial statements may be obtained by contacting TSAHC at P.O. Box 12637, Austin, Texas 78711-2637.

OneStar National Service Commission Inc. and **OneStar Foundation** (OneStar) are legally separate nonprofit corporations that administer the AmeriCorps*Texas program. They serve as the state's liaison to and oversee Texas' participation in OneStar programs for the Corporation for National and Community Service (a federal agency), as well as prepare a comprehensive three-year national service plan for the state. The governor appoints all members of OneStar's

boards. The governor can also remove any board member at will. The OneStar Foundation Inc. performs all administrative duties of the OneStar National Service Commission Inc., as well as provides technical assistance, education, information and other support to the volunteer community. OneStar is reported for the year ended Dec. 31, 2011. The financial statements of OneStar can be obtained by contacting OneStar at 9011 Mountain Ridge Drive, Suite 100, Austin, Texas 78759.

Texas Low-Level Radioactive Waste Disposal Compact Commission (Commission) is a legally separate organization established to promote the health, safety and welfare of the citizens and environment of the states participating in the Texas Low-Level Radioactive Waste Disposal Compact (Compact), known as party states. There are currently three party states, Texas, Maine and Vermont, with Texas serving as the host party state. The mission of the Commission is to:

- Limit the number of radioactive waste disposal facilities
- Effectively, efficiently and economically manage low-level radioactive waste
- Encourage the reduction of the generation thereof

Since Texas serves as the host party state for the Compact, it is entitled to six voting members, whereas the other party states are only entitled to one voting member. The governor appoints the six members of the Commission serving on behalf of Texas. As host state, Texas has the authority to establish the disposal fees assessed at the facility for disposal of low-level radioactive waste generated in the party states. The Texas Legislature, with the approval of the governor, also has the authority to revise the portion of the Compact pertaining to the volume of waste the host state will dispose of without the consent of the nonhost party states. The financial statements of the Commission may be obtained by contacting the Commission at 333 Guadalupe St. #3-240, Austin, Texas 78701.

Texas Windstorm Insurance Association (Association) is a legally separate organization established to provide an adequate market for windstorm and hail insurance in the seacoast territory of Texas and serves as an insurer of last resort. The commissioner of the Texas Department of Insurance (TDI) appoints the nine-member board of directors, and the board is responsible and accountable to the commissioner. The state of Texas has the ability to impose its will on the Association through TDI commissioner approval of rates and maximum liability limits for windstorm and hail insurance policies issued by the Association. The Association is reported for the year ended Dec. 31, 2011. Separate financial statements may be obtained by contacting the Association at 5700 South Mopac, Building E, Suite 530, Austin, Texas 78749.

Surplus Lines Stamping Office of Texas (Stamping Office) is a legally separate nonprofit corporation created by the Legislature to assist TDI in the regulation of surplus lines insurance. TDI's commissioner appoints the board. The Stamping Office performs its functions under a plan of operation approved by order of TDI. The Stamping Office assesses each surplus lines insurance agent a stamping fee for the administrative funding of the Stamping Office. The state of Texas has the ability to impose its will upon the Stamping Office through the approval of the assessment rate that funds its operations. The Stamping Office is reported for the year ended Dec. 31, 2011. Separate financial statements may be obtained by contacting the Stamping Office at P.O. Box 160170, Austin, Texas 78716-0170.

Texas Health Reinsurance System is a legally separate entity that reinsures risks covered under the health benefit plans of small employers' insurance carriers. TDI's commissioner appoints, supervises and controls the nine-member board. The state of Texas has the ability to impose its will through TDI commissioner approval of base reinsurance premium rates and the

assessment rates against reinsured health benefit plan issuers. Financial statements are presented on statutory accounting principles established by TDI, and are reported for the year ended Dec. 31, 2011. Financial statements may be obtained at 100 Great Meadow Rd., Suite 704, Wethersfield, Connecticut 06109.

Texas Health Insurance Risk Pool (THIRP) is a legally separate entity that provides access to quality health care at a minimum cost to the public for those unable to obtain traditional health care coverage. TDI approves all rates and rate schedules before they are used. The nine-member board of directors is appointed by TDI's commissioner. THIRP is reported for the year ended Dec. 31, 2011. Financial statements may be obtained at 1701 Director's Blvd., Suite 120, Austin, Texas 78744.

Texas Boll Weevil Eradication Foundation Inc. (Foundation) is a legally separate entity that establishes and implements a boll weevil eradication program for Texas. It is fiscally dependent on the Texas Department of Agriculture (TDA) and governed by 21 board members. TDA's commissioner appoints five of the board members. TDA approves the Foundation's budget, assessment fees and debt. The Foundation is reported for the year ended Dec. 31, 2011. Separate financial statements may be obtained by contacting TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas Agricultural Finance Authority (TAFE) is a legally separate entity that provides financial assistance for the expansion, development and diversification of agricultural businesses. TAFE primarily benefits the citizens of Texas. If there are insufficient funds to pay TAFE's bond obligations, the primary government is obligated to transfer money from the state treasury to TAFE in an amount sufficient to pay those obligations. The governor, with the advice and consent of the Senate, appoints seven of the nine members of the board of directors. The commissioner of TDA administers TAFE with the assistance of the board. Separate financial state-

ments may be obtained by contacting TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas Water Resources Finance Authority

(Authority) is a legally separate entity created by the Legislature as a governmental entity and body politic and corporate for the purpose of increasing the availability of financing for water-related projects. A board of directors, composed of the six members of the Texas Water Development Board (TWDB), governs the Authority. The members of the TWDB are appointed by the governor. TWDB, through a sales and servicing agreement, wholly manages the Authority's operations. Prior to any bonds being issued by the Authority, the issuance must be reviewed by the Bond Review Board, which is composed of the governor, lieutenant governor, speaker of the House of Representatives and the Comptroller of Public Accounts. Financial statements may be obtained by contacting TWDB at P.O. Box 13231, Austin, Texas 78711-3231.

Texas On-Site Wastewater Treatment Research Council (Council) was abolished effective Sept. 1, 2011. Its purpose was to award competitive grants and contracts to support applied research, demonstration projects and information transfer regarding on-site wastewater treatment. Upon its abolishment, the Council's activities and functions were absorbed by the Texas Commission on Environmental Quality.

Texas Appraiser Licensing and Certification Board (TALCB) was statutorily created as an independent subdivision of the Texas Real Estate Commission (TREC) and is a legally separate entity from the primary government. The governor appoints the members of the board. TREC provides administrative support to TALCB, but has no authority to approve or modify its budget or to set its fees. Although TALCB is not fiscally dependent on TREC, to exclude it would result in the presentation of incomplete financial statements. TALCB serves the real estate community in Texas. Financial statements can be obtained by

contacting TREC at P.O. Box 12188, Austin, Texas 78711-2188.

Texas Economic Development Corporation

(TED Corp), a nonprofit corporation, was created to assist, promote, develop and advance economic development in the state of Texas. The Office of the Governor is the oversight agency for TED Corp, and has the ability to remove board members at will. The board of directors is appointed by the governor. TED Corp's services primarily benefit the Texas citizenry. Separate financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Texas Small Business Industrial Development Corporation (TSBIDC) was chartered to promote economic development in the state of Texas. The Office of the Governor is the oversight agency for TSBIDC. The board of directors is appointed by the governor, and all programs and expenditures of TSBIDC must be approved on behalf of the state by the Texas Economic Development Bank. TSBIDC's services primarily benefit the Texas citizenry. Separate financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Texas Disaster Relief Fund (TDRF), a nonprofit corporation, was established to help the Office of the Governor provide disaster relief. The services provided by TDRF assist the Office of the Governor in responding to the needs of the citizens before, during and after a disaster in Texas. Based on TDRF's relationship with the Office of the Governor, omitting TDRF would result in misleading financial statements. TDRF's financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Texas Health Services Authority (THSA) is a legally separate entity created to assist the Office of the Governor with the improvement of the Texas health care system. THSA promotes and coordinates the elec-

tronic exchange of health information throughout the state to ensure information is available to health care providers and to improve patient safety and quality of care. The board of directors consists of 11 members and is appointed by the governor, with the advice and consent of the Senate. The state of Texas has the ability to impose its will upon THSA through the ability of the governor to order the dissolution of THSA at any time the governor declares the purposes of THSA are fulfilled or that THSA is inoperative or abandoned. THSA is reported for the year ended Sept. 30, 2011. THSA's financial statements may be obtained by contacting THSA at 221 E. 9th St., Suite 201, Austin, Texas 78701.

Beacon State Fund is a legally separate organization established to assist the Governor's Commission for Women (Commission) to promote issues affecting the women of Texas. Members of the board of trustees are appointed by the Office of the Governor or someone designated by the Office of the Governor. The Office of the Governor has fiscal oversight over the Beacon State Fund to ensure funds are expended properly and the public purpose is being accomplished. The Beacon State Fund increases public awareness through the distribution of information, media events and community outreach programs. The Beacon State Fund is reported for the year ended Dec. 31, 2011. Financial statements may be obtained by contacting the Commission at P.O. Box 12428, Austin, Texas 78711.

State Agency Council is a legally separate organization established to assist the Governor's Commission for Women (Commission) by honoring women who have made significant contributions to Texas through their work in state government. The board of directors is appointed by the director of the Commission. The director of the Commission is required to sign all contracts and has check signing privileges. Expenses exceeding \$500 require the Commission director's signature. Financial statements for the State Agency Council may

be obtained by contacting the Commission at P.O. Box 12428, Austin, Texas 78711.

Film Texas Fund is a legally separate nonprofit organization created to support, encourage and promote the development of the film, television and multimedia industry in Texas. The Film Texas Fund is closely related to the Office of the Governor Texas Film Commission (Commission). However, the Commission is not financially accountable for the Film Texas Fund and the Film Texas Fund supports its own mission in promoting the film industry in Texas. Due to the Film Texas Fund's close relationship with the Commission, omitting the Film Texas Fund would result in misleading financial statements. The Film Texas Fund is reported for the year ended Dec. 31, 2011. Financial statements for the Film Texas Fund may be obtained by contacting the Office of the Governor at P.O. Box 13246, Austin, Texas 78711.

Casa Verde Research Center, Sociedad Anonimo (Casa Verde) is a legally separate organization established in Costa Rica to provide research opportunities for students and faculty of Texas A&M University. Casa Verde also provides services to outside organizations, such as study abroad programs to corporations and research and education opportunities for Costa Rican universities. The board of Casa Verde is appointed by executive management of Texas A&M University. The executive management can also remove board members at will and modify the budget of Casa Verde. Casa Verde is reported for the year ended Sept. 30, 2011. Separate financial statements may be obtained by contacting Texas A&M University, External Reporting, at 750 Agronomy Rd., Suite 3101 GSC, 6000 TAMU, College Station, Texas 77843-6000.

Representacion de TAMU en la Republica Mexicana, A.C. (Mexico Center) is a legally separate organization established in Mexico City, Mexico, to serve as a central point of contact for the support and promotion of Texas A&M University's international education, research and outreach activities. In addition, the

Mexico Center provides services outside of Texas A&M University, such as to Mexican government entities. The executive management of Texas A&M University appoints the voting majority of the board of the Mexico Center. It can also remove board members at will and approve and modify the Mexico Center's budget. The Mexico Center is reported for the year ended Dec. 31, 2011. Separate financial statements may be obtained by contacting Texas A&M University, External Reporting, at 750 Agronomy Rd., Suite 3101 GSC, 6000 TAMU, College Station, Texas 77843-6000.

National Biosecurity Foundation (Foundation) is a legally separate nonprofit corporation established to develop national, regional and local biosecurity countermeasures against unconventional weapons, including biological, chemical and radioactive weapons, and communicable diseases applicable to both military and civilian populations. The board consists of initially three directors, originally appointed by the deputy general counsel of the Texas A&M University System (A&M). Additional directors may be elected by a majority of the existing directors of the Foundation. A&M can modify or approve the budget of the Foundation, as well as veto, overrule or modify the decisions of the Foundation's board. The Foundation was dissolved at the end of fiscal 2012. Separate financial statements may be obtained by contacting Texas A&M University System, Office of Budgets and Accounting, 301 Tarrow, Suite 350, College Station, Texas 77840-7896.

Texas 4-H Inc. is a legally separate nonprofit organization established to prepare the youth of Texas to meet the challenges of childhood, adolescence and adulthood through a coordinated, long-term, progressive series of educational experiences that enhance life skills and develop social, emotional, physical and cognitive competencies. Texas 4-H Inc. serves as the central organization for the subordinate organizations and affiliate organizations that comprise the 4-H program in Texas. Texas A&M AgriLife Extension Service is

responsible for the Texas 4-H programs. Although the state of Texas is not financially accountable for Texas 4-H Inc., Texas 4-H Inc. is closely related to the Texas A&M System. Failure to include the financial information of Texas 4-H Inc. would result in misleading financial statements. Separate financial statements may be obtained by contacting Texas A&M University System, Office of Budgets and Accounting, 301 Tarrow, Suite 350, College Station, Texas 77840-7896.

Related Organizations

Related organizations are legally separate, fiscally independent entities for which the state appoints a voting majority of the board, but the state is not financially accountable for the entity.

Life, Accident, Health and Hospital Service Insurance Guaranty Association (Association) was created for the protection of persons against failure in the performance of contractual obligations under life, accident and health insurance policies and annuity contracts due to the impairment or insolvency of the member insurer that issued the policies or contracts. TDI's commissioner appoints the Association's nine-member board of directors.

Texas Title Insurance Guaranty Association was created for the purpose of providing funds for the protection of holders of "covered claims," as defined in the Texas Insurance Code. This applies to all title insurance written by title insurance companies authorized to do business in Texas. The nine-member board of directors is appointed by TDI's commissioner.

Texas Mutual Insurance Company (Texas Mutual) operates as a domestic mutual insurance company providing workers' compensation insurance in the state of Texas and also serves as the insurer of last resort. The governor, with the advice and consent of the Senate, appoints five of the nine members of Texas Mutual's board of directors.

Midwestern State University Charitable Trust (Trust) is a nonprofit organization with the sole purpose

of educational and other activities of Midwestern State University. It is governed by a board of trustees of no less than three members. This board appoints individuals to fill vacancies on the board as they occur with the approval of the Midwestern State University board of regents, which is appointed by the governor. The Trust's board of trustees serves under the direction of the board of regents, which has the power by majority vote to appoint or remove any or all of the trustees.

Charter School Finance Corporation is a non-profit organization with the sole purpose of issuing revenue bonds for authorized open-enrollment charter schools for the acquisition, construction, repair or renovation of education facilities at those schools. The Texas Public Finance Authority appoints the board of directors in consultation with the commissioner of the Texas Education Agency.

Texas State University System Foundation Inc. (Foundation) is a nonprofit corporation with the purpose of providing financial support for the universities and colleges within the Texas State University System. The Foundation provides funds for student scholarships and faculty awards and assists the chancellor in performing his/her duties. The board of directors is comprised of all members of the Texas State University System board of regents, which is appointed by the governor.

Texas Farm and Ranch Lands Conservation Council was established to advise and assist the commissioner of the General Land Office with the administration of the Texas Farm and Ranch Lands Conservation Program and to select applicants to receive grants under the program. The governor appoints the members of the council.

Operation Game Thief Committee was established to administer the operation game thief program. The program facilitates the apprehension and prosecution of persons who violate Texas laws intended to protect the state's natural or cultural resources and the public safety of persons using those natural or cultural

resources. The program also pays rewards and death benefits authorized by Texas statute. The Texas Parks and Wildlife Department's executive director appoints the members of the committee.

Parks and Wildlife Foundation (Foundation) is a legally separate nonprofit organization established to manage and conserve the natural and cultural resources of Texas. The Foundation provides private support to the Texas Parks and Wildlife Department (Department), but the Department is not financially accountable to the Foundation, nor is the Foundation fiscally dependent on the Department. The Foundation is governed by a group of trustees, the majority of whom are appointed by the chairman of the Department.

River Authorities are political subdivisions created by Texas statute. The Texas Constitution, Article XVI, Section 59, authorizes the Legislature to create districts that conserve and develop natural resources of the state. The conservation and development of the state's natural resources includes the control, storing, preservation and distribution for irrigation, power and all other useful purposes of storm waters, flood waters and the waters of rivers and streams; the reclamation and irrigation of arid, semiarid and other lands needing irrigation; the reclamation of drainage of overflowed lands and other lands needing drainage; the conservation and development of forests, water and hydro-electric power; the navigation of inland and coastal waters; and the preservation and conservation of all such natural resources of the state. The state of Texas appoints the voting majority for the following 16 river/water authorities:

- Angelina and Neches River Authority
- Brazos River Authority
- Central Colorado River Authority
- Guadalupe-Blanco River Authority
- Lavaca-Navidad River Authority
- Lower Colorado River Authority
- Lower Neches Valley River Authority
- Nueces River Authority

- Red River Authority
- Sabine River Authority
- San Jacinto River Authority
- Sulphur River Basin Authority
- Trinity River Authority
- Upper Colorado River Authority
- Upper Guadalupe River Authority
- Upper Neches Municipal Water Authority

NOTE 20

Deficit Fund Balances/Net Position

Proprietary Funds

The **Texas Prepaid Tuition Plans**, a nonmajor enterprise fund, reported a deficit of \$620.8 million. The deficit is due to the difference between the present value of actual and projected contract benefit payments and of actual and projected contributions from account holders and investment earnings on those contributions to the Texas Guaranteed Tuition Plan (Plan). The Plan was closed to new enrollment in 2003 when tuition was deregulated. Over the life of the Plan, actual tuition and required fees for Texas public four-year colleges and universities grew at a higher percentage rate than the Plan's investment return.

Discretely Presented Component Units

The Texas Low-Level Radioactive Waste Disposal Compact Commission, a discrete component unit, reported a deficit of \$116.4 thousand. The deficit is due to the fund having no assets or program revenues to offset the operating expenditures.

NOTE 21

Tobacco Settlement

The state of Texas settled a lawsuit against certain tobacco manufacturers in 1998. The settlement included monetary and injunctive relief. The settling tobacco manufacturers agreed to remit annual payments to the state. Estimates made at the time of the agreement projected that these payments could total \$15.1 billion over the first 25 years of the agreement. The court-ordered annual payment amounts are subject to adjustments based on the tobacco companies' domestic cigarette sales, the general consumer inflation rate, the profitability of the tobacco companies and any other court-ordered factors. A revenue accrual of \$312.5 million is based on the payments received in December 2012. Tobacco settlement revenues were \$474.7 million in fiscal 2011 and \$484 million in fiscal 2012. Cumulative actual tobacco settlement revenues as of fiscal 2012 were \$7.6 billion.

NOTE 22

Donor-Restricted Endowments

The state of Texas has donor-restricted endowments with net appreciation of \$2.1 billion on investments available for authorization for expenditure by the governing board. Details for the amounts of the net appreciation on investments and how they are reported can be found in the "Donor-Restricted Endowments" table. True endowments require the principal to be maintained inviolate and in perpetuity. Term endowments allow the principal to be expended after the passage of a stated period of time and all conditions of the endowment are met. Expendable funds are those funds that may be expended for either a stated purpose or for a general purpose as per the endowment gift terms.

Nonexpendable funds are those required to be retained in perpetuity.

Donor-Restricted Endowments

(Amounts in Thousands)

Donor-Restricted Endowments	Amount of Net Appreciation	Reported in Net Position
True Endowments	\$ 2,034,786	Expendable
Term Endowments	35,340	Expendable
	<u>\$ 2,070,126</u>	

The majority of the state's endowments are the results of donations made to institutions of higher education. The Uniform Prudent Management of Institutional Funds Act, Texas Property Code, Chapter 163, provides general guidelines on how endowments should be maintained. An institution may appropriate for expenditures or accumulate as much as the institution determines prudent for the uses, benefits, purposes and duration of the endowment. Each institution sets the amounts and/or percentage of net appreciation on endowment investments that are authorized for expenditure in its spending plan.

NOTE 23

Extraordinary and Special Items

The state did not report extraordinary items in the current fiscal year. Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence.

The state did not report special items in the current fiscal year. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

NOTE 24

Taxes Receivable and Tax Refunds Payable

Taxes receivable and tax refunds payable, as reported in the general fund on the balance sheet – governmental funds, are detailed by tax type in the following tables.

Taxes Receivable by Tax Type

August 31, 2012 (Amounts in Thousands)

Tax Type	Taxes Receivable
Sales and Use Tax	\$ 1,550,483
Motor Vehicle and Manufactured Housing	133,374
Motor Fuels	7,256
Oil and Natural Gas Production	633,027
Franchise	233,843
Insurance Occupation	200,287
Cigarette and Tobacco	19,736
Other	160,654
Total Taxes Receivable*	<u>\$ 2,938,660</u>
Liquidity Characteristics:	
Current Taxes Receivable	\$ 2,802,208
Noncurrent Taxes Receivable	136,452
Total Taxes Receivable	<u>\$ 2,938,660</u>
* Total Taxes Receivable General Fund	\$ 2,938,660
Motor Fuel Taxes Receivable in Other Governmental Funds:	
State Highway Fund	218,717
Nonmajor Governmental Funds	73,135
Total Taxes Receivable – Balance Sheet – Governmental Funds	<u>\$ 3,230,512</u>

Tax Refunds Payable by Tax Type

August 31, 2012 (Amounts in Thousands)

Tax Type	Tax Refunds Payable
Franchise	\$ 453,256
Oil and Natural Gas Production	272,221
Total Tax Refunds Payable	<u>\$ 725,477</u>

Texas franchise tax receivables represent balances due at Aug. 31, 2012, for business activity that occurred in calendar year 2011. The franchise tax payments were due May 15, 2012; however, taxpayers were allowed to extend the filing date to November 2012.

Franchise taxes are considered earned when the underlying business activity occurs. There are no required

estimated payments under this tax. Tax payments are due annually each May 15. The tax earned during the first eight months of calendar year 2012 is not due until May 2013. As a result, the taxes receivable and related revenue that are earned in this eight month period are not measurable and are not accrued at fiscal year-end.

NOTE 25

Termination Benefits

Health Care Related Termination Benefits

Health care continuation under the Consolidated Omnibus Budget Reconciliation Act (COBRA) is provided for both voluntary and involuntary terminations. COBRA members are allowed to remain in their eligible insurance program for 18 months, or 29 months if disabled. Covered dependents are eligible to remain in the program for 36 months. COBRA plan administrators for the state include the Employees Retirement System of Texas, the University of Texas System and the Texas A&M University System.

As part of the American Recovery and Reinvestment Act (ARRA), employees involuntarily terminated between Sept. 1, 2008, and May 31, 2010, are eligible for a 65 percent subsidy of COBRA premiums for up to a 15 month period. The administrators of the COBRA premium assistance program recover the subsidy as a credit on their quarterly employment tax return.

For self-insured and fully-insured plans, the insurance carrier performs the billing and collections process for COBRA participants. If the plan is self-insured, the insurance carrier then forwards the premium to the plan administrators, net of a 2 percent administrative fee, which is intended to cover costs related to the billing and collection functions. The plan administrators are responsible for any claims or administrative costs associated with COBRA participants that exceed these payments. For fiscal 2012, the

cost to the state was approximately \$31.8 million for 4,647 COBRA participants.

For the fully-insured health maintenance organization health insurance plans, the insurance carrier retains all premiums and is liable for all claims and expenses. Premium and expense information is not available for these plans.

Non-Health Care Related Termination Benefits

There were no material non-health care related voluntary or involuntary termination benefits accepted in fiscal 2012.

NOTE 26

Segment Information

Primary Government

Segments are separately identifiable activities reported as or within enterprise funds for which revenue bonds or other revenue-backed debt instruments are outstanding and for which related expenses, gains, losses, assets and liabilities can be identified. To qualify as a segment, an activity must also be subject to an external requirement to separately account for this revenue stream.

The State of Texas David A. Gloier State Veterans Home Program was created to provide long-term skilled nursing care for veterans, spouses of veterans and gold star parents of veterans of the state of Texas. The construction of the first four homes was funded by the issuance of revenue bonds, which required these homes' revenues, expenses, gains and losses, assets and liabilities to be separately accounted for and independently audited. Pursuant to the board exercising an option redemption provision, the entire \$21.8 million principal amount outstanding of the Veteran's Homes revenue bonds were redeemed on Aug. 1, 2012, resulting in a zero balance at fiscal year-end. Therefore, the condensed financial statements are not required or presented.



Section Two
(continued)

Required
Supplementary Information
Other Than MD&A

STATE OF TEXAS

Budgetary Comparison Schedule

General Fund

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts	Final
	Original	Final	Budgetary Basis	to Actual Variance
REVENUES				
Taxes	\$ 35,987,443	\$ 35,603,220	\$ 38,400,547	\$ 2,797,327
Federal	31,258,619	38,264,461	35,452,450	(2,812,011)
Licenses, Fees and Permits	2,439,391	2,608,937	2,775,037	166,100
Interest and Other Investment Income	253,890	121,841	535,425	413,584
Land Income	13,410	13,487	32,042	18,555
Settlement of Claims	462,475	532,639	586,770	54,131
Sales of Goods and Services	1,396,373	2,253,987	1,153,896	(1,100,091)
Other	3,027,848	3,213,744	3,815,972	602,228
Total Revenues	<u>74,839,449</u>	<u>82,612,316</u>	<u>82,752,139</u>	<u>139,823</u>
EXPENDITURES				
General Government	5,151,737	4,183,962	2,825,903	1,358,059
Education	23,344,816	23,939,874	26,270,766	(2,330,892)
Employee Benefits	1,233,067	4,312	1,665	2,647
Teacher Retirement Benefits	1,822,440	1,822,440	1,640,592	181,848
Health and Human Services	33,620,295	38,832,770	43,639,682	(4,806,912)
Public Safety and Corrections	4,281,172	5,444,594	4,479,095	965,499
Transportation	178,619	180,218	31,269	148,949
Natural Resources and Recreation	1,366,919	1,642,190	1,547,667	94,523
Regulatory Services	282,295	349,930	343,454	6,476
Total Expenditures	<u>71,281,360</u>	<u>76,400,290</u>	<u>80,780,093</u>	<u>(4,379,803)</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>3,558,089</u>	<u>6,212,026</u>	<u>1,972,046</u>	<u>(4,239,980)</u>
OTHER FINANCING SOURCES (USES)				
Transfer In	1,292,754	2,085,617	4,891,199	2,805,582
Transfer Out	(6,683,857)	(7,337,860)	(5,779,918)	1,557,942
Sale of Capital Assets	8,192	11,064	18,816	7,752
Insurance Recoveries	2,018	2,170	1,467	(703)
Available Beginning Balances	1,339,639	1,339,639	1,339,639	
Total Other Financing Sources (Uses)	<u>(4,041,254)</u>	<u>(3,899,370)</u>	<u>471,203</u>	<u>4,370,573</u>
Excess (Deficiency) of Revenues and Other				
Financing Sources Over (Under) Expenditures				
and Other Financing Uses	<u>\$ (483,165)</u>	<u>\$ 2,312,656</u>	<u>\$ 2,443,249</u>	<u>\$ 130,593</u>

STATE OF TEXAS

Budgetary Comparison Schedule

Major Special Revenue Fund – State Highway Fund

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts	Final
	Original	Final	Budgetary Basis	to Actual Variance
REVENUES				
Taxes	\$ 41,800	\$ 41,787	\$ 2,160,780	\$ 2,118,993
Federal	2,755,747	3,181,028	2,870,276	(310,752)
Licenses, Fees and Permits	1,281,670	1,267,476	1,277,341	9,865
Interest and Other Investment Income	42,899	42,899	39,678	(3,221)
Land Income	5,624	5,624	9,650	4,026
Settlement of Claims	1,000	1,969	24,429	22,460
Sales of Goods and Services	209,288	218,291	9,064	(209,227)
Other	3,741	4,290	1,834	(2,456)
Total Revenues	<u>4,341,769</u>	<u>4,763,364</u>	<u>6,393,052</u>	<u>1,629,688</u>
EXPENDITURES				
General Government	21,058	24,090	17,169	6,921
Employee Benefits	67,593			
Public Safety and Corrections	579,129	711,959	647,566	64,393
Transportation	7,546,232	7,805,864	6,485,489	1,320,375
Regulatory	4,226	4,226	2,548	1,678
Total Expenditures	<u>8,218,238</u>	<u>8,546,139</u>	<u>7,152,772</u>	<u>1,393,367</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>(3,876,469)</u>	<u>(3,782,775)</u>	<u>(759,720)</u>	<u>3,023,055</u>
OTHER FINANCING SOURCES (USES)				
Transfer In	2,274,370	2,271,223	433,409	(1,837,814)
Transfer Out			(453,685)	(453,685)
Sale of Capital Assets	4,521	4,521	12,318	7,797
Insurance Recoveries	12,846	12,847	159	(12,688)
Available Beginning Balances	4,150,822	4,150,822	4,150,822	
Total Other Financing Sources (Uses)	<u>6,442,559</u>	<u>6,439,413</u>	<u>4,143,023</u>	<u>(2,296,390)</u>
Excess of Revenues and Other Financing Sources				
Over Expenditures and Other Financing Uses	<u>\$ 2,566,090</u>	<u>\$ 2,656,638</u>	<u>\$ 3,383,303</u>	<u>\$ 726,665</u>

Note to Budgetary Comparison Schedule

The budgetary comparison schedule presents comparisons of the legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of these differences is presented below.

Reconciliation of Budgetary Basis to GAAP Basis

August 31, 2012 (Amounts in Thousands)

	General Fund	State Highway Fund
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – Actual Budgetary Basis	\$ 2,443,249	\$ 3,383,303
Basis of Accounting Differences:		
Receivables and Deferred Revenues	(690,818)	463,845
Payables	1,553,579	82,358
Perspective Differences:		
Beginning Cash Balances Reported as Other Financing Sources	(1,339,639)	(4,150,822)
Other Revenues Not Budgeted	175,192	
Other Expenditures Not Budgeted	(151,777)	(63,845)
Entity Differences:		
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses for Other Activities	88	2,779
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – GAAP Basis	<u>\$ 1,989,874</u>	<u>\$ (282,382)</u>

The major reconciling items between the budgetary comparison schedule actual and the GAAP financial statements are:

- **Basis of Accounting Differences:** Revenues and expenditures are reported on the cash basis of accounting in the budgetary comparison schedule but are reported on the modified accrual basis on the GAAP financial statements. Therefore, deferred revenues, receivables and payables are included as reconciling items.

- **Perspective Differences:** Certain revenues and expenditures, including debt service and the disproportionate share portion of the Federal Medical Assistance program, are not budgeted by the Legislature. The activity for these programs is excluded from the budgetary comparison schedule.

The beginning cash balances are included as other financing sources in the budgetary comparison schedule. The beginning fund balances are not included as financing sources on the GAAP financial statements.

- **Entity Differences:** Budgets are not established for sources from capital leases. These financing sources are not included in the budgetary comparison schedule.

Excess of Actual Budgetary Basis Expenditures over Final Budget

General fund - The \$2.3 billion variance in education was due to various prior year educational programs in that year's budget primarily being spent in this fiscal year. The \$4.8 billion variance in health and human services is the result of increased expenditures

made from the excess of federal revenues received over estimates by agencies in this particular function.

Basis of Budgeting

The state's budget is prepared on a cash basis. The Texas Constitution limits appropriation bills to two years. The Legislative Budget Board (LBB) is required by statute to adopt an estimated rate of growth for the next biennium and calculate a limit on the amount of state tax revenue, not dedicated by the Texas Constitu-

tion, that is available for spending in the next biennium. If the Legislature, by adoption of a resolution approved by a record vote of a majority of the members of each house, finds that an emergency exists and identifies the nature of the emergency, the Legislature may provide appropriations in excess of the adopted limit. The Governor's Budget Office and LBB initiate the process by submitting budget requests to the Legislature. At final passage of the General Appropriations Act by the Legislature, it is sent to the Comptroller for certification. If the Comptroller certifies that appropriated amounts are available in the affected funds, the bill is sent to the governor. If not certified, the Legislature may pass the bill with a four-fifths majority vote. The governor has the option of vetoing the total bill or specific line-item appropriations, but does not have the authority to reduce a line item of appropriation. Upon approval by the governor, the bill becomes law and is the budget authority for state agencies to spend state funds. The Comptroller is responsible for controlling, accounting and reporting expenditures in accordance with the expenditure budgets.

Legal Level of Budgetary Control

The Texas Constitution requires the Comptroller to submit a *Biennial Revenue Estimate* to the Legislature prior to each regular session. This document contains an itemized estimate of beginning cash balances, anticipated revenues based on laws then in effect and estimated expenditures from prior appropriations. The Texas Constitution also requires the Comptroller to submit supplementary revenue estimates at any special session of the Legislature and at other necessary times to show probable changes.

The level of legal control for the budget is established at the strategy (line item) level by agency. For example, "Highway Patrol" and "Vehicle Inspection Program" are two of the strategies for the Texas Department of Public Safety. The legal level of budgetary con-

trol is defined as the level at which the governing body must approve any over-expenditure of appropriations or transfers of appropriated amounts. Agencies are authorized limited transfer authority between strategies, not to exceed 20 percent, by the General Appropriations Act. Transfers and expenditures are monitored against the original budget by the Comptroller's office to ensure the agency's authorized budget is not exceeded.

The level of legal control for all agencies is documented in the *Appropriation Summary Report*, which is available by request from the Comptroller's office. This separate document includes budget and actual data by appropriation line item for each state agency. State agencies cannot exceed approved appropriations. In certain emergency situations, the governor may authorize additional appropriations from deficiency and emergency appropriation reserves. During fiscal 2012, \$100,000 was transferred to the Texas Veteran's Commission to provide additional funds for staffing needs in processing veteran's claims for disability benefits. Unexpended appropriations generally lapse 60 days after the fiscal year unless they are encumbered during the 60-day "lapse" period. Other appropriations referred to as "reappropriated unexpended balances" represent the continuation of a prior year's balances for completion of a program.

Modified Approach to Reporting Infrastructure Assets

The state adopted the modified approach for reporting its highway system. Under the modified approach, depreciation is not reported and certain preservation and maintenance costs are expensed.

The modified approach requires that the state:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets
- Perform condition assessments of the eligible infrastructure assets and summarize the results

using a measurement scale in order to document that the eligible infrastructure assets are being preserved approximately at (or above) the condition level established and disclosed by the government

- Estimate each year the annual amount needed to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government

Although bridges are an integral part of the highway system, the state elected to depreciate bridges. Therefore, they are not reported using the modified approach.

Condition Assessments

The Texas Department of Transportation (TxDOT) performs yearly condition assessments through its Texas Maintenance Assessment Program (TxMAP). Under this program, visual inspections are conducted on approximately 10 percent of the interstate system, 5 percent of the non-interstate system (national, state and farm-to-market roadways) and 20 percent of the Central Texas Turnpike System toll roads. For each section of highway observed, 21 elements separated into three highway components are assessed scores from 0 to 5 (0=NA, 1=Failed, 2=Poor, 3=Fair, 4=Good, 5=Excellent) in order to determine the condition of the highways. Each element within a component and each component are weighted according to importance to determine the overall condition of the highways. The overall score is converted to a percentage measurement for reporting (1=20 percent, 2=40 percent, 3=60 percent, 4=80 percent, 5=100 percent).

Assessed Conditions

TxDOT adopted a minimum condition level of 80 percent for the interstate system, 75 percent for the non-interstate system and 80 percent for the Central Texas Turnpike System based on TxMAP assessments. The results of the condition assessments are presented below.

Year	Interstate Condition (Minimum 80%)	Non-Interstate Condition (Minimum 75%)	Central Texas Turnpike System (Minimum 80%)
2012	82.0%	77.7%	86.2%
2011	83.0%	78.5%	89.9%
2010	83.6%	77.9%	87.9%
2009	81.4%	76.5%	90.5%
2008	83.7%	79.0%	91.7%

Estimated and Actual Costs for Maintenance

The table below provides a comparison between TxDOT's estimate of maintenance expenditures required to maintain the highway system at or above the adopted condition levels and the actual expenditures.

Maintenance Cost

(Amounts in Thousands)

	2012	2011	2010	2009	2008
INTERSTATE HIGHWAYS					
Estimate	\$ 191,442	\$ 604,837	\$ 568,456	\$ 534,263	\$ 502,128
Actual	\$ 346,326	\$ 361,825	\$ 333,253	\$ 326,305	\$ 438,237
OTHER HIGHWAYS					
Estimate	\$ 2,224,822	\$ 3,282,946	\$ 3,005,713	\$ 2,687,869	\$ 2,455,243
Actual	\$ 1,594,432	\$ 1,517,604	\$ 1,423,734	\$ 1,519,110	\$ 1,649,317
CENTRAL TEXAS TURNPIKE SYSTEM					
Estimate	\$ 10,050	\$ 11,578	\$ 11,371	\$ 9,179	\$ 6,910
Actual	\$ 10,628	\$ 11,439	\$ 6,972	\$ 7,262	\$ 5,411

Factors Affecting Condition Assessments

TxDOT continues to develop its methods for determining such estimates. As additional experience is acquired in the estimation and reporting pro-

cesses, TxDOT intends to achieve a greater correlation between the estimated maintenance expenditures needed to maintain the highway system at or above the adopted condition levels and the condition level of the highways. In comparing actual expenditures to estimated expenditures, factors such as increases in traffic, legislative mandates, budgetary constraints and environmental effects (rainfall, drought, freeze, thaw, etc.) are considered as they may have a major impact on needed funds and the condition of Texas roads.

Other Condition Assessments

A separate annual inspection is performed on the Central Texas Turnpike System in accordance with Section 707 of the Indenture Trust. Those inspections are

performed by the general engineering consultant (GEC) of the Central Texas Turnpike System. The fiscal 2012 inspection noted that overall the Central Texas Turnpike System was in excellent condition, achieving an overall score of 95 percent. While the GEC inspection uses the same general criteria as TxMAP, both parties have different areas of focus, timing and methodology that may contribute to a difference in scores. The evaluation covers all 65 miles of the system rather than a 20 percent random sample.

Schedules of Funding Progress

The schedules of funding progress for the state's other postemployment benefit (OPEB) plans for the three most recent actuarial valuations are presented in the table below.

Schedules of Funding Progress – OPEB*						
(Amounts in Thousands)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
UT System Employee Group Insurance Program (UT Plan)						
12/31/10	\$ 0	\$ 5,956,798	\$ 5,956,798	0.0%	\$ 5,309,413	112.2%
12/31/09	0	5,676,868	5,676,868	0.0%	5,026,491	112.9%
12/31/08	0	5,102,765	5,102,765	0.0%	4,820,568	105.9%
A&M Care Health and Life Plan (A&M Plan)						
09/01/10	\$ 0	\$ 1,854,690	\$ 1,854,690	0.0%	\$ 1,313,538	141.2%
09/01/09	0	1,864,320	1,864,320	0.0%	1,315,292	141.7%
09/01/08	0	1,258,563	1,258,563	0.0%	1,260,683	99.8%
* Addresses for obtaining the financial reports of the OPEB plans are provided in Note 11.						

The schedules of funding progress for the state's pension plans for the three most recent actuarial valuations are presented below.

Schedules of Funding Progress – Pension*

(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Employees Retirement System of Texas (ERS)						
08/31/12	\$ 24,272,514	\$ 29,377,069	\$ 5,104,555	82.6%	\$ 5,676,509	89.9%
08/31/11	23,997,445	28,398,213	4,400,768	84.5%	5,795,185	75.9%
08/31/10	23,628,567	27,668,876	4,040,309	85.4%	5,930,141	68.1%
Law Enforcement and Custodial Officer Supplemental Retirement (LECOS)						
08/31/12	\$ 832,451	\$ 1,015,668	\$ 183,217	82.0%	\$ 1,498,979	12.2%
08/31/11	830,522	960,953	130,431	86.4%	1,475,432	8.8%
08/31/10	802,897	930,747	127,850	86.3%	1,507,950	8.5%
Judicial Retirement System Plan One (JRS1)						
08/31/12	\$ 0	\$ 232,922	\$ 232,922	0.0%	\$ 2,200	10,587.4%
08/31/11	0	245,777	245,777	0.0%	2,200	11,171.7%
08/31/10	0	264,077	264,077	0.0%	2,827	9,341.2%
Judicial Retirement System Plan Two (JRS2)						
08/31/12	\$ 300,433	\$ 315,199	\$ 14,766	95.3%	\$ 68,778	21.5%
08/31/11	283,936	300,163	16,227	94.6%	69,655	23.3%
08/31/10	264,515	281,760	17,245	93.9%	68,755	25.1%
Teacher Retirement System of Texas (TRS)						
08/31/12	\$ 118,326,042	\$ 144,427,226	\$ 26,101,184	81.9%	\$ 35,444,569	73.6%
08/31/11	115,252,828	139,315,090	24,062,262	82.7%	36,797,011	65.4%
08/31/10	111,292,528	134,191,110	22,898,582	82.9%	36,628,844	62.5%

* Addresses for obtaining the financial reports for the pension plans are provided in Note 9.

Significant Factors Affecting the Comparability of Amounts Reported

Amounts reported in the schedule of funding progress for the following plans varied significantly from the previous year to the current year due to changes in actuarial assumptions or benefit provisions. Significant changes are summarized below and the effects of those changes are incorporated into the 2012 valuations.

Pension Plans

The salary increase assumptions were modified since the prior valuations of the ERS, LECOS, JRS1 and JRS2 pension plans to reflect no across-the-board salary increases.

There were no changes to actuarial assumptions and methods for TRS since the prior valuation.

OPEB Plans

The University of Texas System (UT) and the Texas A&M University System (A&M) opted to perform actuarial valuations of their respective OPEB plans on a biennial basis rather than on an annual basis starting with fiscal 2012. While a true actuarial valuation was not performed for either plan, the results of the prior actuarial valuations were rolled forward using standard actuarial techniques to obtain the current year OPEB plan obligations.



Section Two

(continued)

Other Supplementary Information Combining Financial Statements and Schedules



Section Two
(continued)

Governmental Funds

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Governmental Funds

August 31, 2012 (Amounts in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
ASSETS					
Cash and Cash Equivalents	\$ 1,221,870	\$ 1,287,006	\$ 691,533	\$ 27,997	\$ 3,228,406
Short-Term Investments	17,266	93,009		6,807	117,082
Receivables:					
Accounts	64	888	2,145	41	3,138
Taxes	73,135				73,135
Federal	1,055	20,973			22,028
Investment Trades				5,571	5,571
Interest and Dividends	12,271	212		28	12,511
Due From Other Funds	68,392		4,280	778	73,450
Interfund Receivable			457		457
Inventories	154		3		157
Prepaid Items	5				5
Investments	14	7,788		729,947	737,749
Loans and Contracts	1,031,177				1,031,177
Other Assets	88				88
Restricted:					
Cash and Cash Equivalents	4,725				4,725
Loans and Contracts	789,064				789,064
Other Assets	88,001				88,001
Total Assets	<u>\$ 3,307,281</u>	<u>\$ 1,409,876</u>	<u>\$ 698,418</u>	<u>\$ 771,169</u>	<u>\$ 6,186,744</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	\$ 19,366	\$ 46	\$ 63,723	\$ 1,541	\$ 84,676
Investment Trades				633	633
Payroll	4,155		83		4,238
Due To Other Funds	899	19,555	31,764	15,756	67,974
Interfund Payable	2,840		98		2,938
Deferred Revenues	4,772	400	359,733		364,905
Other Liabilities	381		1,092		1,473
Total Liabilities	<u>32,413</u>	<u>20,001</u>	<u>456,493</u>	<u>17,930</u>	<u>526,837</u>
Fund Balances:					
Nonspendable	159		3	745,211	745,373
Restricted	2,469,125	1,389,875	241,922	352	4,101,274
Committed	803,376			7,676	811,052
Assigned	2,208				2,208
Total Fund Balances	<u>3,274,868</u>	<u>1,389,875</u>	<u>241,925</u>	<u>753,239</u>	<u>5,659,907</u>
Total Liabilities and Fund Balances	<u>\$ 3,307,281</u>	<u>\$ 1,409,876</u>	<u>\$ 698,418</u>	<u>\$ 771,169</u>	<u>\$ 6,186,744</u>

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
REVENUES					
Taxes	\$ 3,477,300	\$	\$	\$	\$ 3,477,300
Federal	4,341	54,012			58,353
Licenses, Fees and Permits	381,000	372,942			753,942
Interest and Other Investment Income	83,627	9,034	4,427	21,293	118,381
Land Income	4			11	15
Sales of Goods and Services	2,458		184,102		186,560
Other	39,845		4	15,756	55,605
Total Revenues	<u>3,988,575</u>	<u>435,988</u>	<u>188,533</u>	<u>37,060</u>	<u>4,650,156</u>
EXPENDITURES					
Current:					
General Government	233,263	1,258	27,421	2,798	264,740
Education	1,133,815		2,448	2,905	1,139,168
Employee Benefits	11,873				11,873
Health and Human Services	1,038		1,242	990	3,270
Public Safety and Corrections	58,672		22,357		81,029
Transportation	2,025	2,748			4,773
Natural Resources and Recreation	52,443		6,783	288	59,514
Regulatory Services	67,074				67,074
Capital Outlay	2,632		650,621		653,253
Debt Service:					
Principal		496,420			496,420
Interest	159	681,527			681,686
Other Financing Fees	1,096	908			2,004
Total Expenditures	<u>1,564,090</u>	<u>1,182,861</u>	<u>710,872</u>	<u>6,981</u>	<u>3,464,804</u>
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	<u>2,424,485</u>	<u>(746,873)</u>	<u>(522,339)</u>	<u>30,079</u>	<u>1,185,352</u>
OTHER FINANCING SOURCES (USES)					
Transfer In	1,109,382	842,669	1,254		1,953,305
Transfer Out	(3,546,416)	(246,410)	(183,263)	(18,393)	(3,994,482)
Bonds and Notes Issued	149,291	11,891	77,435		238,617
Bonds Issued for Refunding		37,940			37,940
Premiums on Bonds Issued	14,381				14,381
Payment to Escrow for Refunding		(62,086)			(62,086)
Total Other Financing Sources (Uses)	<u>(2,273,362)</u>	<u>584,004</u>	<u>(104,574)</u>	<u>(18,393)</u>	<u>(1,812,325)</u>
Net Change in Fund Balances	<u>151,123</u>	<u>(162,869)</u>	<u>(626,913)</u>	<u>11,686</u>	<u>(626,973)</u>
Fund Balances, September 1, 2011	4,002,160	1,554,996	868,892	757,309	7,183,357
Restatements	(878,415)	(2,252)	(54)	(15,756)	(896,477)
Fund Balances, September 1, 2011, as Restated	<u>3,123,745</u>	<u>1,552,744</u>	<u>868,838</u>	<u>741,553</u>	<u>6,286,880</u>
Fund Balances, August 31, 2012	<u>\$ 3,274,868</u>	<u>\$ 1,389,875</u>	<u>\$ 241,925</u>	<u>\$ 753,239</u>	<u>\$ 5,659,907</u>

Nonmajor Special Revenue Funds

The **Property Tax Relief Fund** is outside the general revenue fund. The proceeds of the fund are from allocations of the computation of motor vehicle sales tax, collection of all tobacco products tax increases and calculated amounts from franchise taxes. The fund was established with the intent of reducing school district property taxes.

The **Texas Transportation Corporations** issue bonds and notes – currently only conduit debt – to finance the cost of projects. The corporations act on behalf of the Texas Department of Transportation (TxDOT) in the promotion and development of transportation facilities by issuing private activity bonds for projects developed under comprehensive development agreements entered into by TxDOT.

The **Water Development Funds** receive proceeds from the sale of Texas Water Development bonds for the purpose of aiding and making funds available to various political subdivisions for projects and other authorized purposes. The funds also receive gifts or grants for the purpose of assisting economically distressed areas. Monies in the funds are invested.

The **System Benefit Fund** receives funds from a nonbypassable fee in an amount not to exceed 65 cents per megawatt hour and interest earned. The funds are used to provide funding for programs to assist low-income electric customers.

The **Available School Fund** receives distributions from the permanent school fund based on total return of investment assets, allocations of motor fuel taxes and appropriations made by the Legislature. The fund is to be used for the support of public schools.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Special Revenue Funds

August 31, 2012 (Amounts in Thousands)

	Property Tax Relief Fund	Texas Transportation Corporations	Water Development Funds	System Benefit Fund	Available School Fund	Other Nonmajor Special Revenue Funds*	Totals
ASSETS							
Cash and Cash Equivalents	\$	\$ 101	\$ 79,385	\$766,658	\$ 88,590	\$ 287,136	\$ 1,221,870
Short-Term Investments			17,257			9	17,266
Receivables:							
Accounts			39			25	64
Taxes					73,135		73,135
Federal						1,055	1,055
Interest and Dividends	18		3,022		34	9,197	12,271
Due From Other Funds		533			65,866	1,993	68,392
Inventories						154	154
Prepaid Items						5	5
Investments						14	14
Loans and Contracts			1,024,809			6,368	1,031,177
Other Assets		4				84	88
Restricted:							
Cash and Cash Equivalents						4,725	4,725
Loans and Contracts						789,064	789,064
Other Assets						88,001	88,001
Total Assets	<u>\$ 18</u>	<u>\$ 638</u>	<u>\$ 1,124,512</u>	<u>\$766,658</u>	<u>\$227,625</u>	<u>\$1,187,830</u>	<u>\$ 3,307,281</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Payables:							
Accounts	\$	\$ 467	\$ 762	\$ 12,970	\$	\$ 5,167	\$ 19,366
Payroll						4,155	4,155
Due To Other Funds			662			237	899
Interfund Payable			2,840				2,840
Deferred Revenues					4,350	422	4,772
Other Liabilities						381	381
Total Liabilities	<u>0</u>	<u>467</u>	<u>4,264</u>	<u>12,970</u>	<u>4,350</u>	<u>10,362</u>	<u>32,413</u>
Fund Balances:							
Nonspendable						159	159
Restricted			1,120,062		223,275	1,125,788	2,469,125
Committed	18		186	753,688		49,484	803,376
Assigned		171				2,037	2,208
Total Fund Balances	<u>18</u>	<u>171</u>	<u>1,120,248</u>	<u>753,688</u>	<u>223,275</u>	<u>1,177,468</u>	<u>3,274,868</u>
Total Liabilities and Fund Balances	<u>\$ 18</u>	<u>\$ 638</u>	<u>\$ 1,124,512</u>	<u>\$766,658</u>	<u>\$227,625</u>	<u>\$1,187,830</u>	<u>\$ 3,307,281</u>

* The other nonmajor special revenue funds column includes blended component units and the special revenue funds of the Employees Retirement System of Texas and the student loan fund. These funds do not meet the materiality threshold for separate column presentation.

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Property Tax Relief Fund	Texas Transportation Corporations	Water Development Funds	System Benefit Fund	Available School Fund	Other Nonmajor Special Revenue Funds*	Totals
REVENUES							
Taxes	\$ 2,699,969	\$	\$	\$	\$ 777,331	\$	\$ 3,477,300
Federal			76			4,265	4,341
Licenses, Fees and Permits				149,085		231,915	381,000
Interest and Other Investment Income	944		26,839	4,174	635	51,035	83,627
Land Income						4	4
Sales of Goods and Services			294			2,164	2,458
Other		1,591	1,995			36,259	39,845
Total Revenues	<u>2,700,913</u>	<u>1,591</u>	<u>29,204</u>	<u>153,259</u>	<u>777,966</u>	<u>325,642</u>	<u>3,988,575</u>
EXPENDITURES							
Current:							
General Government						233,263	233,263
Education					1,117,555	16,260	1,133,815
Employee Benefits						11,873	11,873
Health and Human Services						1,038	1,038
Public Safety and Corrections						58,672	58,672
Transportation		2,025					2,025
Natural Resources and Recreation			49,401			3,042	52,443
Regulatory Services				67,074			67,074
Capital Outlay						2,632	2,632
Debt Service:							
Interest			159				159
Other Financing Fees						1,096	1,096
Total Expenditures	<u>0</u>	<u>2,025</u>	<u>49,560</u>	<u>67,074</u>	<u>1,117,555</u>	<u>327,876</u>	<u>1,564,090</u>
Excess (Deficiency) of Revenues							
Over (Under) Expenditures	<u>2,700,913</u>	<u>(434)</u>	<u>(20,356)</u>	<u>86,185</u>	<u>(339,589)</u>	<u>(2,234)</u>	<u>2,424,485</u>
OTHER FINANCING SOURCES (USES)							
Transfer In			540		1,020,887	87,955	1,109,382
Transfer Out	(2,700,937)		(74,811)		(598,976)	(171,692)	(3,546,416)
Bonds and Notes Issued			63,676			85,615	149,291
Premiums on Bonds Issued						14,381	14,381
Total Other Financing Sources (Uses)	<u>(2,700,937)</u>	<u>0</u>	<u>(10,595)</u>	<u>0</u>	<u>421,911</u>	<u>16,259</u>	<u>(2,273,362)</u>
Net Change in Fund Balances	<u>(24)</u>	<u>(434)</u>	<u>(30,951)</u>	<u>86,185</u>	<u>82,322</u>	<u>14,025</u>	<u>151,123</u>
Fund Balances, September 1, 2011	42	910,614	1,151,199	667,503	74,332	1,198,470	4,002,160
Restatements		(910,009)			66,621	(35,027)	(878,415)
Fund Balances, September 1, 2011, as Restated	<u>42</u>	<u>605</u>	<u>1,151,199</u>	<u>667,503</u>	<u>140,953</u>	<u>1,163,443</u>	<u>3,123,745</u>
Fund Balances, August 31, 2012	<u>\$ 18</u>	<u>\$ 171</u>	<u>\$ 1,120,248</u>	<u>\$ 753,688</u>	<u>\$ 223,275</u>	<u>\$ 1,177,468</u>	<u>\$ 3,274,868</u>

* The other nonmajor special revenue funds column includes blended component units and the special revenue funds of the Employees Retirement System of Texas and the student loan fund. These funds do not meet the materiality threshold for separate column presentation.

STATE OF TEXAS

Budgetary Comparison Schedule Nonmajor Special Revenue Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Property Tax Relief Fund				Water Development Funds *			
	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance
	Original	Final			Original	Final		
REVENUES								
Taxes	\$2,190,124	\$2,132,930	\$2,699,969	\$ 567,039	\$	\$	\$	\$
Federal					10,060	10,060	76	(9,984)
Licenses, Fees and Permits								
Interest and Other Investment Income	8,870	693	968	275	23,528	23,528	26,582	3,054
Sales of Goods and Services					300	300	425	125
Other					3,000	3,000	1,996	(1,004)
Total Revenues	<u>2,198,994</u>	<u>2,133,623</u>	<u>2,700,937</u>	<u>567,314</u>	<u>36,888</u>	<u>36,888</u>	<u>29,079</u>	<u>(7,809)</u>
EXPENDITURES								
General Government								
Education	2,198,994	2,198,994		2,198,994				
Employee Benefits								
Health and Human Services								
Public Safety and Corrections								
Transportation								
Natural Resources and Recreation					7,719	10,312	46,900	(36,588)
Regulatory Services								
Total Expenditures	<u>2,198,994</u>	<u>2,198,994</u>	<u>0</u>	<u>2,198,994</u>	<u>7,719</u>	<u>10,312</u>	<u>46,900</u>	<u>(36,588)</u>
Excess (Deficiency) of Revenues								
Over (Under) Expenditures	<u>0</u>	<u>(65,371)</u>	<u>2,700,937</u>	<u>2,766,308</u>	<u>29,169</u>	<u>26,576</u>	<u>(17,821)</u>	<u>(44,397)</u>
OTHER FINANCING SOURCES (USES)								
Transfer In							539	539
Transfer Out			(2,700,937)	(2,700,937)			(74,811)	(74,811)
Available Beginning Balances					69,216	69,216	69,216	
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>(2,700,937)</u>	<u>(2,700,937)</u>	<u>69,216</u>	<u>69,216</u>	<u>(5,056)</u>	<u>(74,272)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under)								
Expenditures and Other Financing Uses	<u>\$ 0</u>	<u>\$ (65,371)</u>	<u>\$ 0</u>	<u>\$ 65,371</u>	<u>\$ 98,385</u>	<u>\$ 95,792</u>	<u>\$ (22,877)</u>	<u>\$ (118,669)</u>

* The Water Development Funds received bond proceeds of \$63.7 million not included on this schedule.

** The activity of the Texas transportation corporations, now discretely presented, is not shown on this schedule because there is no legally adopted budget.

System Benefit Fund				Available School Fund				Other Nonmajor Special Revenue Funds**			
Budgetary Amounts		Actual Amounts	Final To Actual	Budgetary Amounts		Actual Amounts	Final To Actual	Budgetary Amounts		Actual Amounts	Final To Actual
Original	Final	Basis	Variance	Original	Final	Basis	Variance	Original	Final	Basis	Variance
\$	\$	\$	\$	\$	\$	\$ 708,547	\$ 708,547	\$	\$	\$	\$
								372,754	263,099	3,542	(259,557)
144,262	144,262	149,085	4,823					88,470	88,470	95,335	6,865
9,596	9,596	4,174	(5,422)	1,380	908	640	(268)	704	704	18,184	17,480
										2,442	2,442
								20	20	132	112
153,858	153,858	153,259	(599)	1,380	908	709,187	708,279	461,948	352,293	119,635	(232,658)
								428,496	157,901	110,101	47,800
				1,099,949	1,099,949	1,117,555	(17,606)			7,039	(7,039)
								589,706	15,756	11,765	3,991
								19,994	19,996		19,996
								5,000	5,000	540	4,460
									3		3
								4,958	5,336	5,711	(375)
81,235	84,097	69,724	14,373								
81,235	84,097	69,724	14,373	1,099,949	1,099,949	1,117,555	(17,606)	1,048,154	203,992	135,156	68,836
72,623	69,761	83,535	13,774	(1,098,569)	(1,099,041)	(408,368)	690,673	(586,206)	148,301	(15,521)	(163,822)
				1,549,455	1,778,392	1,020,887	(757,505)			29,506	29,506
					(608,069)	(598,976)	9,093			(38,222)	(38,222)
683,123	683,123	683,123		10,857	10,857	10,857		122,758	122,758	122,758	
683,123	683,123	683,123	0	1,560,312	1,181,180	432,768	(748,412)	122,758	122,758	114,042	(8,716)
\$755,746	\$752,884	\$766,658	\$13,774	\$ 461,743	\$ 82,139	\$ 24,400	\$ (57,739)	\$ (463,448)	\$ 271,059	\$98,521	\$ (172,538)

Nonmajor Debt Service Funds

The **Texas College Student Loan Bonds Interest and Sinking Fund** receives deposits from the Texas opportunity plan fund for payment of current interest and principal and establishment of a reserve.

The **Texas Department of Transportation Texas Mobility Fund** receives proceeds from the sale of general obligation bonds and the revenues dictated by statute to provide for the debt service requirements of those bonds. The bond proceeds provide a method of financing for the construction, reconstruction, acquisition and expansion of state highway projects. The proceeds remain in the fund until transferred to the state highway fund.

The **Texas Public Finance Authority G.O. Bond Funds** receive proceeds and accrued interest from the sale of general obligation bonds and provide the debt service requirements for those bonds.

The **Texas Public Finance Authority Commercial Paper Funds** receive deposits of any accrued interest on the sale of notes and pledged revenues necessary to make debt service payments.

The **Texas Department of Transportation State Highway Debt Service Fund** receives proceeds and accrued interest from the sale of revenue bonds and provides the debt service requirements for those bonds.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Debt Service Funds

August 31, 2012 (Amounts in Thousands)

	Texas College Student Loan Bonds Interest and Sinking Fund	Texas Department of Transportation Texas Mobility Fund	Texas Public Finance Authority G.O. Bond Funds	Texas Public Finance Authority Commercial Paper Funds	Texas Department of Transportation State Highway Debt Service Fund	Other Nonmajor Debt Service Funds	Totals
ASSETS							
Cash and Cash Equivalents	\$ 17,804	\$ 1,118,551	\$ 45	\$ 5,120	\$ 145,466	\$ 20	\$ 1,287,006
Short-Term Investments	93,009						93,009
Receivables:							
Accounts	355	533					888
Federal		9,710			11,263		20,973
Interest and Dividends	212						212
Investments	7,788						7,788
Total Assets	<u>\$119,168</u>	<u>\$1,128,794</u>	<u>\$ 45</u>	<u>\$ 5,120</u>	<u>\$156,729</u>	<u>\$ 20</u>	<u>\$1,409,876</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Payables:							
Accounts	\$ 19	\$ 12	\$ 15	\$	\$	\$	\$ 46
Due To Other Funds		19,555					19,555
Deferred Revenues		400					400
Total Liabilities	<u>19</u>	<u>19,967</u>	<u>15</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>20,001</u>
Fund Balances:							
Restricted	119,149	1,108,827	30	5,120	156,729	20	1,389,875
Total Fund Balances	<u>119,149</u>	<u>1,108,827</u>	<u>30</u>	<u>5,120</u>	<u>156,729</u>	<u>20</u>	<u>1,389,875</u>
Total Liabilities and Fund Balances	<u>\$119,168</u>	<u>\$1,128,794</u>	<u>\$ 45</u>	<u>\$ 5,120</u>	<u>\$156,729</u>	<u>\$ 20</u>	<u>\$1,409,876</u>

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Debt Service Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Texas College Student Loan Bonds Interest and Sinking Fund	Texas Department of Transportation Texas Mobility Fund	Texas Public Finance Authority G.O. Bond Funds	Texas Public Finance Authority Commercial Paper Funds	Texas Department of Transportation State Highway Debt Service Fund	Other Nonmajor Debt Service Funds	Totals
REVENUES							
Federal	\$ 20	\$ 23,304	\$ 3,659	\$	\$ 27,029	\$	\$ 54,012
Licenses, Fees and Permits		372,942					372,942
Interest and Other Investment Income	1,033	7,131	26	35	787	22	9,034
Total Revenues	<u>1,053</u>	<u>403,377</u>	<u>3,685</u>	<u>35</u>	<u>27,816</u>	<u>22</u>	<u>435,988</u>
EXPENDITURES							
Current:							
General Government			1,021	237			1,258
Transportation		2,748					2,748
Debt Service:							
Principal	59,430	46,770	160,115	13,820	114,510	101,775	496,420
Interest	31,724	284,760	89,683	164	200,386	74,810	681,527
Other Financing Fees		514				394	908
Total Expenditures	<u>91,154</u>	<u>334,792</u>	<u>250,819</u>	<u>14,221</u>	<u>314,896</u>	<u>176,979</u>	<u>1,182,861</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(90,101)</u>	<u>68,585</u>	<u>(247,134)</u>	<u>(14,186)</u>	<u>(287,080)</u>	<u>(176,957)</u>	<u>(746,873)</u>
OTHER FINANCING SOURCES (USES)							
Transfer In	104,135		237,683	14,629	287,582	198,640	842,669
Transfer Out	(6,000)	(239,981)	(1)	(426)		(2)	(246,410)
Bonds and Notes Issued			9,423			2,468	11,891
Bonds Issued for Refunding						37,940	37,940
Payment to Escrow for Refunding						(62,086)	(62,086)
Total Other Financing Sources (Uses)	<u>98,135</u>	<u>(239,981)</u>	<u>247,105</u>	<u>14,203</u>	<u>287,582</u>	<u>176,960</u>	<u>584,004</u>
Net Change in Fund Balances	<u>8,034</u>	<u>(171,396)</u>	<u>(29)</u>	<u>17</u>	<u>502</u>	<u>3</u>	<u>(162,869)</u>
Fund Balances, September 1, 2011	111,115	1,280,223	59	5,103	158,479	17	1,554,996
Restatements					(2,252)		(2,252)
Fund Balances, September 1, 2011, as Restated	<u>111,115</u>	<u>1,280,223</u>	<u>59</u>	<u>5,103</u>	<u>156,227</u>	<u>17</u>	<u>1,552,744</u>
Fund Balances, August 31, 2012	<u>\$ 119,149</u>	<u>\$ 1,108,827</u>	<u>\$ 30</u>	<u>\$ 5,120</u>	<u>\$ 156,729</u>	<u>\$ 20</u>	<u>\$ 1,389,875</u>

Nonmajor Capital Projects Funds

The **Texas Public Finance Authority Administration Project Funds** utilize long-term financing for various state construction, repair or renovation projects. Funds are also used to refinance purchases of equipment by various state agencies.

The **Texas Parks and Wildlife Department Project Funds** are used for the acquisition and development of state park sites. Revenues from park entrance fees are used for the repayments of long-term debt incurred.

The **Texas Facilities Commission Project Funds** are used to administer the state's major and minor building construction programs.

The **Texas Department of Criminal Justice Prison Project Funds** are used for construction of regional centers and for repairs and minor construction of correctional facilities.

The **Texas Youth Commission Project Funds** are used to pay for minor construction and repairs of the Texas Youth Commission buildings and facilities.

The **Texas Health Agencies Project Funds** are used to pay for the cost of construction, repair and remodeling for certain mental health facilities and other health related projects.

The **Texas Department of Public Safety Project Funds** are used to finance construction of new Department of Public Safety buildings and crime lab facilities in various state locations.

The **Texas Department of Transportation Project Funds** are used for public road and highway development, construction and improvement projects. The funds are also used to establish, acquire, operate, maintain and dispose of airports and air navigation facilities.

The **Texas Historical Commission Project Funds** are used to provide financial assistance to counties for the repair and renovation of courthouses.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Capital Projects Funds

August 31, 2012 (Amounts in Thousands)

	Texas Public Finance Authority Administration Project Funds	Texas Parks and Wildlife Department Project Funds	Texas Facilities Commission Project Funds	Texas Department of Criminal Justice Prison Project Funds	Texas Youth Commission Project Funds
ASSETS					
Cash and Cash Equivalents	\$ 1,800	\$ 13,899	\$ 36,928	\$ 14,733	\$ 7,893
Accounts Receivable			2,145		
Due From Other Funds			3,435		845
Interfund Receivable					
Inventories	3				
Total Assets	<u>\$ 1,803</u>	<u>\$ 13,899</u>	<u>\$ 42,508</u>	<u>\$ 14,733</u>	<u>\$ 8,738</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	\$ 58	\$ 637	\$ 1,173	\$ 1,072	\$ 243
Payroll	83				
Due To Other Funds					
Interfund Payable	20	78			
Deferred Revenues					
Other Liabilities			466	626	
Total Liabilities	<u>161</u>	<u>715</u>	<u>1,639</u>	<u>1,698</u>	<u>243</u>
Fund Balances:					
Nonspendable	3				
Restricted	1,639	13,184	40,869	13,035	8,495
Total Fund Balances	<u>1,642</u>	<u>13,184</u>	<u>40,869</u>	<u>13,035</u>	<u>8,495</u>
Total Liabilities and Fund Balances	<u>\$ 1,803</u>	<u>\$ 13,899</u>	<u>\$ 42,508</u>	<u>\$ 14,733</u>	<u>\$ 8,738</u>

Texas Health Agencies Project Funds	Texas Department of Public Safety Project Funds	Texas Department of Transportation Project Funds	Texas Historical Commission Project Funds	Other Nonmajor Capital Projects Funds	Totals
\$ 10,512	\$ 10,802	\$ 548,934	\$ 32,806	\$ 13,226	\$ 691,533
					2,145
					4,280
			457		457
					3
<u>\$ 10,512</u>	<u>\$ 10,802</u>	<u>\$ 548,934</u>	<u>\$ 33,263</u>	<u>\$ 13,226</u>	<u>\$ 698,418</u>
\$ 483	\$ 191	\$ 56,515	\$ 1,753	\$ 1,598	\$ 63,723
					83
		31,764			31,764
					98
		359,733			359,733
					1,092
<u>483</u>	<u>191</u>	<u>448,012</u>	<u>1,753</u>	<u>1,598</u>	<u>456,493</u>
<u>10,029</u>	<u>10,611</u>	<u>100,922</u>	<u>31,510</u>	<u>11,628</u>	<u>241,922</u>
<u>10,029</u>	<u>10,611</u>	<u>100,922</u>	<u>31,510</u>	<u>11,628</u>	<u>241,925</u>
<u>\$ 10,512</u>	<u>\$ 10,802</u>	<u>\$ 548,934</u>	<u>\$ 33,263</u>	<u>\$ 13,226</u>	<u>\$ 698,418</u>

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Capital Projects Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Texas Public Finance Authority Administration Project Funds	Texas Parks and Wildlife Department Project Funds	Texas Facilities Commission Project Funds	Texas Department of Criminal Justice Prison Project Funds	Texas Youth Commission Project Funds
REVENUES					
Interest and Other Investment Income	\$ 14	\$ 113	\$ 222	\$ 132	\$ 41
Sales of Goods and Services			3,142		
Other				2	
Total Revenues	<u>14</u>	<u>113</u>	<u>3,364</u>	<u>134</u>	<u>41</u>
EXPENDITURES					
Current:					
General Government	1,829		11,339		
Education					
Health and Human Services					
Public Safety and Corrections				19,277	
Natural Resources and Recreation		6,783			
Capital Outlay		10,132	3,836	8,933	5,087
Total Expenditures	<u>1,829</u>	<u>16,915</u>	<u>15,175</u>	<u>28,210</u>	<u>5,087</u>
Deficiency of Revenues					
Under Expenditures	<u>(1,815)</u>	<u>(16,802)</u>	<u>(11,811)</u>	<u>(28,076)</u>	<u>(5,046)</u>
OTHER FINANCING SOURCES (USES)					
Transfer In	1,012	4	5		5
Transfer Out	(2,173)	(3)	(11)	(2)	
Bonds and Notes Issued	1,350	23,700	13,000	10,000	5,550
Total Other Financing Sources (Uses)	<u>189</u>	<u>23,701</u>	<u>12,994</u>	<u>9,998</u>	<u>5,555</u>
Net Change in Fund Balances	<u>(1,626)</u>	<u>6,899</u>	<u>1,183</u>	<u>(18,078)</u>	<u>509</u>
Fund Balances, September 1, 2011	3,268	6,285	39,686	31,113	7,986
Restatements					
Fund Balances, September 1, 2011, as Restated	<u>3,268</u>	<u>6,285</u>	<u>39,686</u>	<u>31,113</u>	<u>7,986</u>
Fund Balances, August 31, 2012	<u>\$ 1,642</u>	<u>\$ 13,184</u>	<u>\$ 40,869</u>	<u>\$ 13,035</u>	<u>\$ 8,495</u>

Texas Health Agencies Project Funds	Texas Department of Public Safety Project Funds	Texas Department of Transportation Project Funds	Texas Historical Commission Project Funds	Other Nonmajor Capital Projects Funds	Totals
\$ 125	\$ 160	\$ 3,310 180,960	\$ 172	\$ 138	\$ 4,427 184,102
	2				4
<u>125</u>	<u>162</u>	<u>184,270</u>	<u>172</u>	<u>138</u>	<u>188,533</u>
			14,253		27,421
				2,448	2,448
1,242					1,242
	2,843			237	22,357
					6,783
14,917	22,032	565,456	4,985	15,243	650,621
<u>16,159</u>	<u>24,875</u>	<u>565,456</u>	<u>19,238</u>	<u>17,928</u>	<u>710,872</u>
(16,034)	(24,713)	(381,186)	(19,066)	(17,790)	(522,339)
22	25		145	36	1,254
(2)	(55)	(180,961)	(14)	(42)	(183,263)
2,000			21,835		77,435
<u>2,020</u>	<u>(30)</u>	<u>(180,961)</u>	<u>21,966</u>	<u>(6)</u>	<u>(104,574)</u>
(14,014)	(24,743)	(562,147)	2,900	(17,796)	(626,913)
22,548	35,354	663,501	29,727	29,424	868,892
1,495		(432)	(1,117)		(54)
<u>24,043</u>	<u>35,354</u>	<u>663,069</u>	<u>28,610</u>	<u>29,424</u>	<u>868,838</u>
<u>\$ 10,029</u>	<u>\$ 10,611</u>	<u>\$ 100,922</u>	<u>\$ 31,510</u>	<u>\$ 11,628</u>	<u>\$ 241,925</u>

Nonmajor Permanent Funds

The **Permanent Health Fund for Higher Education** was established by the Legislature from a portion of the money received in the settlement of *The State of Texas v. The American Tobacco Co., et.al.* The corpus of the account was designated by the Legislature to be preserved. Distributions of earnings on the account are to be transferred to other accounts and used for health care costs, tobacco education and enforcement.

The **National Research University Fund** was established by the Legislature to provide a dedicated, independent and equitable source of funding to enable emerging research universities to achieve national prominence as major research universities. The fund consists of appropriations and transfers under the Texas Constitution and amounts provided by law, gifts, grants and interest. The Texas Constitution required that balances in the permanent higher education fund be transferred to the national research university fund on Jan. 1, 2010. Funds are allocated to eligible universities based on an equitable formula.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Permanent Funds

August 31, 2012 (Amounts in Thousands)

	Permanent Health Fund for Higher Education	National Research University Fund	Other Nonmajor Permanent Funds	Totals
ASSETS				
Cash and Cash Equivalents	\$ 11,144	\$ 15,768	\$ 1,085	\$ 27,997
Short-Term Investments	1,298	5,509		6,807
Receivables:				
Accounts	41			41
Investment Trades	971	4,600		5,571
Interest and Dividends	6	22		28
Due From Other Funds	240		538	778
Investments	133,652	593,239	3,056	729,947
Total Assets	<u>\$ 147,352</u>	<u>\$ 619,138</u>	<u>\$ 4,679</u>	<u>\$ 771,169</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payables:				
Accounts	\$ 700	\$ 304	\$ 537	\$ 1,541
Investment Trades	140	493		633
Due To Other Funds		15,756		15,756
Total Liabilities	<u>840</u>	<u>16,553</u>	<u>537</u>	<u>17,930</u>
Fund Balances:				
Nonspendable	138,836	602,585	3,790	745,211
Restricted			352	352
Committed	7,676			7,676
Total Fund Balances	<u>146,512</u>	<u>602,585</u>	<u>4,142</u>	<u>753,239</u>
Total Liabilities and Fund Balances	<u>\$ 147,352</u>	<u>\$ 619,138</u>	<u>\$ 4,679</u>	<u>\$ 771,169</u>

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Permanent Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Permanent Health Fund for Higher Education	National Research University Fund	Other Nonmajor Permanent Funds	Totals
REVENUES				
Interest and Other Investment Income	\$ 3,913	\$ 15,192	\$ 2,188	\$ 21,293
Land Income			11	11
Other		15,756		15,756
Total Revenues	<u>3,913</u>	<u>30,948</u>	<u>2,199</u>	<u>37,060</u>
EXPENDITURES				
Current:				
General Government	1,004	1,794		2,798
Education	756		2,149	2,905
Health and Human Services	990			990
Natural Resources and Recreation	288			288
Total Expenditures	<u>3,038</u>	<u>1,794</u>	<u>2,149</u>	<u>6,981</u>
Excess of Revenues Over Expenditures	<u>875</u>	<u>29,154</u>	<u>50</u>	<u>30,079</u>
OTHER FINANCING USES				
Transfer Out	(2,625)	(15,756)	(12)	(18,393)
Total Other Financing Uses	<u>(2,625)</u>	<u>(15,756)</u>	<u>(12)</u>	<u>(18,393)</u>
Net Change in Fund Balances	<u>(1,750)</u>	<u>13,398</u>	<u>38</u>	<u>11,686</u>
Fund Balances, September 1, 2011	148,262	604,943	4,104	757,309
Restatements		(15,756)		(15,756)
Fund Balances, September 1, 2011, as Restated	<u>148,262</u>	<u>589,187</u>	<u>4,104</u>	<u>741,553</u>
Fund Balances, August 31, 2012	<u>\$ 146,512</u>	<u>\$ 602,585</u>	<u>\$ 4,142</u>	<u>\$ 753,239</u>



Section Two
(continued)

Enterprise Funds

Nonmajor Enterprise Funds

The **Texas Water Development Board Funds** include water development funds, agricultural water conservation funds and water pollution control revolving funds that receive proceeds from bonds issued by the Texas Water Development Board to provide assistance to political subdivisions.

The **Texas Department of Housing and Community Affairs** issues bonds to assist in financing the purchase of homes or the construction of rental housing for families with low to moderate incomes. Loan payments and rentals provide the revenue for debt service payments.

The **Texas Department of Transportation Turnpike Authority**, a division within the Texas Department of Transportation, receives proceeds from the

sale of bonds used to finance a portion of the costs of planning, designing, engineering, developing and constructing the initial phase of the Central Texas Turnpike System.

The **Veterans Land Board Loan Program Funds** receive proceeds from the sale of bonds used to administer, originate and service loans from land, housing and home improvement for those qualifying veterans.

The **Texas Department of Criminal Justice Institutional Division** accounts for the proceeds of the institutional division's commissary operations and other miscellaneous revenue.

The **Texas Prepaid Tuition Plans** offer programs that allow Texas families to lock in the cost of future college tuition and required fees at current prices.

STATE OF TEXAS

Combining Statement of Net Position – Nonmajor Enterprise Funds

August 31, 2012 (Amounts in Thousands)

	Texas Water Development Board Funds	Texas Department of Housing and Community Affairs	Texas Department of Transportation Turnpike Authority	Veterans Land Board Loan Program Funds
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 121,016	\$ 41,260	\$ 8,007	\$
Short-Term Investments	591,888		300,254	
Securities Lending Collateral				85,056
Restricted:				
Cash and Cash Equivalents		175,630	19,323	334,420
Short-Term Investments			6,326	74,990
Loans and Contracts		20,788		62,753
Receivables:				
Federal	1,713			4,157
Other Intergovernmental			200	
Accounts	38	1,011	3,996	24,752
Interest and Dividends	29,273	13,348	283	19,848
Investment Trades				
Other		119		
Due From Other Funds	19	4	502	166
Interfund Receivable	130	260		4
Inventories		15	224	
Prepaid Items			8	19
Loans and Contracts	122,950	2,177		
Other Current Assets		27		
Total Current Assets	<u>867,027</u>	<u>254,639</u>	<u>339,123</u>	<u>606,165</u>
Noncurrent Assets:				
Restricted:				
Cash and Cash Equivalents				
Investments		1,351,616	114,999	432,223
Receivables				
Loans and Contracts		1,101,545		1,898,908
Other				4,550
Loans and Contracts	4,186,845	46,823		
Investments				(387)
Interfund Receivable	2,710			
Other Receivables			450	
Capital Assets:				
Non-Depreciable or Non-Amortizable			2,277,014	3,500
Depreciable or Amortizable, Net		127	337,799	62,491
Assets Held in Trust				
Deferred Charges		8,958	37,647	
Other Noncurrent Assets		341		
Total Noncurrent Assets	<u>4,189,555</u>	<u>2,509,410</u>	<u>2,767,909</u>	<u>2,401,285</u>
Total Assets	<u>5,056,582</u>	<u>2,764,049</u>	<u>3,107,032</u>	<u>3,007,450</u>
DEFERRED OUTFLOWS				
Deferred Outflow of Resources		46,907		389,775
Total Deferred Outflow of Resources	<u>0</u>	<u>46,907</u>	<u>0</u>	<u>389,775</u>

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Other Nonmajor Enterprise Funds	Totals
\$	\$ 1,669	\$ 36,923	\$ 208,875
	96,653		892,142
	236,537	500	181,709
			766,410
			81,316
			83,541
			5,870
			200
1,581		222	31,600
	3,978	81	66,811
	126,094		126,094
	279	2,587	2,985
40,514		62	41,267
			394
9,104		1,085	10,428
		245	272
	44,832	2,115	172,074
	234		261
<u>51,199</u>	<u>510,276</u>	<u>43,820</u>	<u>2,672,249</u>
		34,137	34,137
	1,404,414	84	3,303,336
	149,819		149,819
			3,000,453
			4,550
		21,645	4,255,313
			(387)
			2,710
			450
283		381	2,281,178
360		414	401,191
		2,538	2,538
			46,605
			341
<u>643</u>	<u>1,554,233</u>	<u>59,199</u>	<u>13,482,234</u>
51,842	2,064,509	103,019	16,154,483
			436,682
<u>0</u>	<u>0</u>	<u>0</u>	<u>436,682</u>

Concluded on the following page

STATE OF TEXAS

Combining Statement of Net Position – Nonmajor Enterprise Funds (concluded)

August 31, 2012 (Amounts in Thousands)

	Texas Water Development Board Funds	Texas Department of Housing and Community Affairs	Texas Department of Transportation Turnpike Authority	Veterans Land Board Loan Program Funds
LIABILITIES				
Current Liabilities:				
Payables:				
Accounts	\$ 283	\$ 1,351	\$	\$ 28,282
Payroll				
Investment Trades				
Interest	9,432	27,800	3,664	3,441
Due To Other Funds	1,654		516	262
Interfund Payable				
Unearned Revenue	53,241	17,156	1,056	212
Obligations/Securities Lending				85,056
Employees' Compensable Leave		503		
General Obligation Bonds Payable	37,828			82,167
Revenue Bonds Payable	16,990	117,013	7,288	
Liabilities Payable From Restricted Assets				
Other Current Liabilities		58		762
Total Current Liabilities	<u>119,428</u>	<u>163,881</u>	<u>12,524</u>	<u>200,182</u>
Noncurrent Liabilities:				
Employees' Compensable Leave		417		
Notes and Loans Payable			1,057,877	
General Obligation Bonds Payable	1,031,410			2,048,228
Revenue Bonds Payable	889,914	2,243,400	1,609,462	
Liabilities Payable From Restricted Assets				
Assets Held for Others				
Hedging Derivative Liability		46,907		389,775
Other Noncurrent Liabilities		71,593		
Total Noncurrent Liabilities	<u>1,921,324</u>	<u>2,362,317</u>	<u>2,667,339</u>	<u>2,438,003</u>
Total Liabilities	<u>2,040,752</u>	<u>2,526,198</u>	<u>2,679,863</u>	<u>2,638,185</u>
NET POSITION				
Invested in Capital Assets, Net of Related Debt		127	512,057	65,990
Restricted for:				
Debt Retirement		201,984	7,247	
Veterans Land Board Housing Programs				693,050
Other				
Unrestricted	<u>3,015,830</u>	<u>82,647</u>	<u>(92,135)</u>	
Total Net Position	<u>\$ 3,015,830</u>	<u>\$ 284,758</u>	<u>\$ 427,169</u>	<u>\$ 759,040</u>

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Other Nonmajor Enterprise Funds	Totals
\$ 5,950	\$ 541	\$ 1,107	\$ 37,514
1,412		2,113	3,525
	145,619		145,619
			44,337
594	77	62	3,165
		89	89
	579	101	72,345
	96,653		181,709
743	49	662	1,957
			119,995
			141,291
	251,971		251,971
	72		892
<u>8,699</u>	<u>495,561</u>	<u>4,134</u>	<u>1,004,409</u>
522	51	439	1,429
		25,000	1,082,877
			3,079,638
			4,742,776
	2,189,723		2,189,723
		2,538	2,538
			436,682
			71,593
<u>522</u>	<u>2,189,774</u>	<u>27,977</u>	<u>11,607,256</u>
<u>9,221</u>	<u>2,685,335</u>	<u>32,111</u>	<u>12,611,665</u>
643		625	579,442
			209,231
			693,050
		500	500
<u>41,978</u>	<u>(620,826)</u>	<u>69,783</u>	<u>2,497,277</u>
<u>\$ 42,621</u>	<u>\$ (620,826)</u>	<u>\$ 70,908</u>	<u>\$ 3,979,500</u>

STATE OF TEXAS

Combining Statement of Revenues, Expenses and Changes in Net Position – Nonmajor Enterprise Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Texas Water Development Board Funds	Texas Department of Housing and Community Affairs	Texas Department of Transportation Turnpike Authority	Veterans Land Board Loan Program Funds
OPERATING REVENUES				
Auxiliary Enterprises – Pledged	\$	\$	\$	\$
Other Sales of Goods and Services				6,359
Other Sales of Goods and Services – Pledged			75,695	28,876
Interest and Investment Income	69,054	118,308		97,280
Interest and Investment Income – Pledged	80,268			
Federal Revenue				31,992
Other Revenues	4,335	21,591	10,111	750
Total Operating Revenues	<u>153,657</u>	<u>139,899</u>	<u>85,806</u>	<u>165,257</u>
OPERATING EXPENSES				
Cost of Goods Sold				
Salaries and Wages	6,697	8,895	1,199	
Payroll Related Costs	1,211	2,193		
Professional Fees and Services	1,035	2,687	9,313	64,834
Travel	57	208		52
Materials and Supplies	23	167	4,323	4,128
Communication and Utilities	52	92	1,060	
Repairs and Maintenance	2	245	15,155	(429)
Rentals and Leases	164	67		
Printing and Reproduction	2	44	20	2
Depreciation and Amortization		662	17,266	4,479
Bad Debt Expense		2,412		
Interest Expense	102,454	99,622		71,946
Employee/Participant Benefit Payments				
Other Expenses	2,109	6,329	24,803	10,523
Total Operating Expenses	<u>113,806</u>	<u>123,623</u>	<u>73,139</u>	<u>155,535</u>
Operating Income (Loss)	<u>39,851</u>	<u>16,276</u>	<u>12,667</u>	<u>9,722</u>

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Other Nonmajor Enterprise Funds	Totals
\$ 102,342	\$ 58,050	\$ 8,353	\$ 102,342
			72,762
			104,571
		726	285,368
			80,268
			31,992
251	1,140	21,799	59,977
<u>102,593</u>	<u>59,190</u>	<u>30,878</u>	<u>737,280</u>
73,078		1,470	74,548
13,009	770	11,721	42,291
4,017	182	2,689	10,292
10	2,583	3,239	83,701
41	21	187	566
95	93	1,003	9,832
	33	602	1,839
188	294	864	16,319
670	25	1,036	1,962
81	18	57	224
66	3	393	22,869
2			2,414
	1	44	274,067
	160,063		160,063
57	14,370	2,736	60,927
<u>91,314</u>	<u>178,456</u>	<u>26,041</u>	<u>761,914</u>
11,279	(119,266)	4,837	(24,634)

Concluded on the following page

STATE OF TEXAS

Combining Statement of Revenues, Expenses and Changes in Net Position – Nonmajor Enterprise Funds (concluded)

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Texas Water Development Board Funds	Texas Department of Housing and Community Affairs	Texas Department of Transportation Turnpike Authority	Veterans Land Board Loan Program Funds
NONOPERATING REVENUES (EXPENSES)				
Federal Revenue	\$ 306,069	\$	\$	\$ 905
Gifts				35
Land Income			13	
Interest and Investment Income			6,855	33,593
Loan Premium and Fees on Securities Lending				
Investing Activities Expense				
Interest Expense			(142,675)	(1,274)
Borrower Rebates and Agent Fees				(125)
Gain (Loss) on Sale of Capital Assets				(464)
Settlement of Claims			378	
Other Expenses	(74,946)		(31)	
Total Nonoperating Revenues (Expenses)	<u>231,123</u>	<u>0</u>	<u>(135,460)</u>	<u>32,670</u>
Income (Loss) Before Capital Contributions and Transfers	<u>270,974</u>	<u>16,276</u>	<u>(122,793)</u>	<u>42,392</u>
CAPITAL CONTRIBUTIONS AND TRANSFERS				
Capital Contributions – Other			15	12
Transfer In	2,336	2,566	55,242	1,001
Transfer Out	(7,810)			(22,653)
Total Capital Contributions and Transfers	<u>(5,474)</u>	<u>2,566</u>	<u>55,257</u>	<u>(21,640)</u>
Change in Net Position	<u>265,500</u>	<u>18,842</u>	<u>(67,536)</u>	<u>20,752</u>
Net Position, September 1, 2011	2,750,330	265,916	495,095	738,288
Restatements			(390)	
Net Position, September 1, 2011, as Restated	<u>2,750,330</u>	<u>265,916</u>	<u>494,705</u>	<u>738,288</u>
Net Position, August 31, 2012	<u>\$ 3,015,830</u>	<u>\$ 284,758</u>	<u>\$ 427,169</u>	<u>\$ 759,040</u>

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Other Nonmajor Enterprise Funds	Totals
\$	\$	\$	\$
	76	318	307,292
		768	879
			13
	117,441	115	158,004
	343		343
	(892)		(892)
			(143,949)
	(132)		(257)
1			(463)
			378
			(74,977)
<u>1</u>	<u>116,836</u>	<u>1,201</u>	<u>246,371</u>
<u>11,280</u>	<u>(2,430)</u>	<u>6,038</u>	<u>221,737</u>
			27
5,912		1,299	68,356
(4,548)		(275)	(35,286)
<u>1,364</u>	<u>0</u>	<u>1,024</u>	<u>33,097</u>
<u>12,644</u>	<u>(2,430)</u>	<u>7,062</u>	<u>254,834</u>
29,973	(618,396)	63,823	3,725,029
4		23	(363)
<u>29,977</u>	<u>(618,396)</u>	<u>63,846</u>	<u>3,724,666</u>
<u>\$ 42,621</u>	<u>\$ (620,826)</u>	<u>\$ 70,908</u>	<u>\$ 3,979,500</u>

STATE OF TEXAS

Combining Statement of Cash Flows – Nonmajor Enterprise Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Texas Water Development Board Funds	Texas Department of Housing and Community Affairs	Texas Department of Transportation Turnpike Authority	Veterans Land Board Loan Program Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Proceeds from Customers	\$	\$	\$ 84,684	\$ 21,257
Proceeds from Gifts				35
Proceeds from Loan Programs		80,615		497,463
Proceeds from Auxiliaries				675
Proceeds from Other Operating Revenues		19,116		49,291
Payments to Suppliers for Goods and Services	(1,716)	(10,979)	(54,396)	(79,908)
Payments to Employees	(7,878)	(11,201)	(1,198)	
Payments for Loans Provided		(18,775)		(344,486)
Payments for Other Operating Expenses				(57)
Net Cash Provided (Used) by Operating Activities	(9,594)	58,776	29,090	144,270
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from Debt Issuance	312,501	89,915		149,990
Proceeds from Transfers from Other Funds	139,774	1,691	55,758	69,078
Proceeds from Grant Receipts	307,254			
Proceeds from Interfund Payables	41,628			
Proceeds from Other Noncapital Financing Activities				
Payments of Principal on Debt Issuance	(104,165)	(124,603)		(70,967)
Payments of Interest	(104,941)	(101,565)		(72,406)
Payments of Other Costs on Debt Issuance	(412)	(1,732)		
Payments for Transfers to Other Funds	(192,902)			(91,400)
Payments for Grant Disbursements	(76,163)			
Payments for Interfund Receivables	(61,873)			
Net Cash Provided (Used) by Noncapital Financing Activities	260,701	(136,294)	55,758	(15,705)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from Sale of Capital Assets				
Proceeds from Federal Grants and Contracts				968
Proceeds from Other Capital and Related Financing Activities			13	
Proceeds from Capital Contributions			3,117	
Payments for Additions to Capital Assets		(59)	(180)	(1,914)
Payments of Principal on Debt Issuance			(4,505)	(22,220)
Payments for Capital Leases				
Payments of Interest on Debt Issuance			(71,278)	(1,388)
Payments of Other Costs on Debt Issuance			(32)	
Net Cash Provided (Used) by Capital and Related Financing Activities	0	(59)	(72,865)	(24,554)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sale of Investments	633,714	261,964	75,926	198,843
Proceeds from Interest and Investment Income	149,376	61,992	7,382	8,795
Proceeds from Principal Payments on Loans	383,910			
Payments to Acquire Investments	(611,447)	(368,751)	(367,578)	(328,306)
Payments for Nonprogram Loans Provided	(808,383)			
Net Cash Provided (Used) by Investing Activities	(252,830)	(44,795)	(284,270)	(120,668)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,723)	(122,372)	(272,287)	(16,657)
Cash and Cash Equivalents, September 1, 2011	122,739	339,262	299,617	351,077
Restatements				
Cash and Cash Equivalents, September 1, 2011, as Restated	0	0	0	0
Cash and Cash Equivalents, August 31, 2012	\$ 121,016	\$ 216,890	\$ 27,330	\$ 334,420

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Other Nonmajor Enterprise Funds	Totals
\$ 102,925	\$ 64,038	\$ 8,521	\$ 281,425
			35
			578,078
			675
251	642	21,754	91,054
(72,825)	(146,693)	(4,306)	(370,823)
(17,028)	(964)	(13,860)	(52,129)
			(363,261)
(1,139)		(7,228)	(8,424)
12,184	(82,977)	4,881	156,630
		5,000	557,406
5,911		1,556	273,768
		486	307,740
			41,628
		222	222
			(299,735)
		(42)	(278,954)
		(4)	(2,148)
(17,988)		(213)	(302,503)
			(76,163)
			(61,873)
(12,077)	0	7,005	159,388
105			105
			968
			13
			3,117
		(26)	(2,179)
			(26,725)
		(16)	(16)
			(72,666)
			(32)
105	0	(42)	(97,415)
18,696	3,192,456		4,381,599
39	34,749	791	263,124
		3,336	387,246
(18,947)	(3,179,975)		(4,875,004)
		(7,396)	(815,779)
(212)	47,230	(3,269)	(658,814)
0	(35,747)	8,575	(440,211)
0	273,953	62,984	1,449,632
		1	1
0	0	62,985	1,449,633
\$ 0	\$ 238,206	\$ 71,560	\$1,009,422

Concluded on the following page

STATE OF TEXAS

Combining Statement of Cash Flows – Nonmajor Enterprise Funds (concluded)

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Texas Water Development Board Funds	Texas Department of Housing and Community Affairs	Texas Department of Transportation Turnpike Authority	Veterans Land Board Loan Program Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 39,851	\$ 16,276	\$ 12,667	\$ 9,722
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation and Amortization		662	17,266	4,479
Bad Debt Expense		2,412		
Operating Income (Loss) and Cash Flow Categories Classification Differences	(50,654)	25,493		71,983
Changes in Assets and Liabilities:				
(Increase) Decrease in Receivables	1,185	850	(989)	(11,078)
(Increase) Decrease in Due From Other Funds				
(Increase) Decrease in Inventories				
(Increase) Decrease in Loans and Contracts		13,662		63,883
(Increase) Decrease in Other Assets		554		(1,555)
(Increase) Decrease in Prepaid Expenses			146	
Increase (Decrease) in Payables	(62)	(800)		4,811
Increase (Decrease) in Due To Other Funds	86			
Increase (Decrease) in Unearned Revenue		(1,777)		
Increase (Decrease) in Employees' Compensable Leave				
Increase (Decrease) in Benefits Payable				
Increase (Decrease) in Other Liabilities		1,444		2,025
Total Adjustments	<u>(49,445)</u>	<u>42,500</u>	<u>16,423</u>	<u>134,548</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (9,594)</u>	<u>\$ 58,776</u>	<u>\$ 29,090</u>	<u>\$ 144,270</u>
NONCASH TRANSACTIONS				
Net Change in Fair Value of Investments	\$ (648)	\$ 6,557	\$	\$ 25,382
Other	\$	\$	\$	\$ (415)

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Other Nonmajor Enterprise Funds	Totals
\$ 11,279	\$ (119,266)	\$ 4,837	\$ (24,634)
66	3	393	22,869
2			2,414
		(566)	46,256
583	8,699	(45)	(795)
		135	135
(680)		(185)	(865)
			77,545
	(466)	219	(1,248)
		(1)	145
934	85	251	5,219
		(48)	38
	325	29	(1,423)
	(2)	108	106
	27,583		27,583
	62	(246)	3,285
905	36,289	44	181,264
\$ 12,184	\$ (82,977)	\$ 4,881	\$ 156,630
\$	\$ 82,368	\$	\$ 113,659
\$	\$	\$	\$ (415)

Colleges and Universities – Major Enterprise Fund

There are six university systems and five independent universities in Texas' primary government presented in a single-column as a major fund on the basic financial statements. Schedules were prepared to report the breakdown of the following universities:

University of Texas System
Texas A&M University System
Texas Tech University System
University of Houston System
Texas State University System
University of North Texas System
Texas Woman's University
Stephen F. Austin State University
Texas Southern University
Midwestern State University
Texas State Technical College

STATE OF TEXAS

Schedule of Net Position

Colleges and Universities – Major Enterprise Fund

August 31, 2012 (Amounts in Thousands)

	University of Texas System	Texas A&M University System	Texas Tech University System	University of Houston System	Texas State University System
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ 2,325,376	\$ 753,737	\$ 334,509	\$ 331,228	\$ 439,913
Short-Term Investments		(975)		249,721	719
Securities Lending Collateral	511,401				
Restricted:					
Cash and Cash Equivalents	224,860	339,664	139,151	42,780	80,601
Short-Term Investments					99
Loans and Contracts					
Receivables:					
Federal	406,534	91,481	43,245	44,937	18,519
Other Intergovernmental	57,330	5,586			
Accounts	1,001,938	146,762	54,295	17,144	96,122
Interest and Dividends	56,849	6,560	430	374	192
Gifts	91,507	27,241	37,566	17,099	5,309
Investment Trades	187,857	160,396			
Other	272,144	4,408	3,415	5,047	2,452
Due From Other Funds	270,935	123,220	118,447	93,661	101,360
Interfund Receivable		22,390			
Inventories	87,625	24,907	3,942	2,019	4,077
Prepaid Items			35,131	27,232	10,590
Loans and Contracts	50,371	25,997	1,590	14,400	10,416
Other Current Assets	231,729	75,219	451		38,973
Total Current Assets	<u>5,776,456</u>	<u>1,806,593</u>	<u>772,172</u>	<u>845,642</u>	<u>809,342</u>
Noncurrent Assets:					
Restricted:					
Cash and Cash Equivalents	(90,413)		46,410	9,881	16,987
Short-Term Investments					
Investments	26,653,839	758,817	409,681		141,567
Receivables				30,090	1,692
Loans and Contracts	73,655	4,137		14,914	1,070
Loans and Contracts		21,959	3,382		7
Investments	2,180,674	1,744,977	814,958	638,584	90,086
Interfund Receivable		734,790			
Gifts Receivable	119,364	60,513	44,503		
Capital Assets:					
Non-Depreciable or Non-Amortizable	1,995,415	684,058	131,297	268,113	203,677
Depreciable or Amortizable, Net	10,427,141	2,934,427	1,282,056	806,336	1,087,082
Assets Held in Trust		362			
Deferred Charges				48,395	
Other Noncurrent Assets	193,703	32			
Total Noncurrent Assets	<u>41,553,378</u>	<u>6,944,072</u>	<u>2,732,287</u>	<u>1,816,313</u>	<u>1,542,168</u>
Total Assets	<u>47,329,834</u>	<u>8,750,665</u>	<u>3,504,459</u>	<u>2,661,955</u>	<u>2,351,510</u>
DEFERRED OUTFLOWS					
Deferred Outflow of Resources	334,084	2,244			
Total Deferred Outflow of Resources	<u>334,084</u>	<u>2,244</u>	<u>0</u>	<u>0</u>	<u>0</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 268,997	\$ 12,685 38,607	\$ 48,368 20,143	\$ 22,235	\$ 9,391 20,334	\$ 25,757 8,240	\$ 4,572,196 336,789 511,401
37,989	4,097 59,699	12,810	26,130 18,504	(2,554) 17	11,194 20,655	916,722 98,957 17
31,613 524	2,093	12,422 200	7,751 5,806	289	11,130	670,014 69,446
62,061 464	11,794 657	9,710 147	20,330	5,298 58	11,006 73	1,436,460 65,804
3,945			600	2,360		185,627 348,253
8,053 85,817	2,101 26,559	5,927	122 6,692	1,417 1,289	14,266	299,159 848,173
2,215	847 979	666 20,897	201 17,065	257 7,855	2,769	22,390 129,525 119,749
7,236 29,561	5,781	2,320				118,111 375,933
<u>538,475</u>	<u>165,899</u>	<u>133,610</u>	<u>125,436</u>	<u>46,011</u>	<u>105,090</u>	<u>11,124,726</u>
					110 509	(17,025) 1,453
25,934	103,025	10,071	39,063	4,155		28,146,152 31,782
5,039		4,866 1,528	1,850	56		105,587 26,876
113,130		33,367		25,002		5,640,778 734,790
1,335				1,111		226,826
116,409 737,245	4,846 231,171	8,493 226,412	31,271 212,734	11,633 122,694	15,170 122,935	3,470,382 18,190,233 362
			955			49,350
230				1,155		195,120
<u>999,322</u>	<u>339,042</u>	<u>284,737</u>	<u>285,873</u>	<u>166,750</u>	<u>138,724</u>	<u>56,802,666</u>
<u>1,537,797</u>	<u>504,941</u>	<u>418,347</u>	<u>411,309</u>	<u>212,761</u>	<u>243,814</u>	<u>67,927,392</u>
						336,328
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>336,328</u>

Concluded on the following page

STATE OF TEXAS

Schedule of Net Position**Colleges and Universities – Major Enterprise Fund (concluded)**

August 31, 2012 (Amounts in Thousands)

	University of Texas System	Texas A&M University System	Texas Tech University System	University of Houston System	Texas State University System
LIABILITIES					
Current Liabilities:					
Payables:					
Accounts	\$ 848,215	\$ 376,865	\$ 43,111	\$ 42,351	\$ 58,760
Payroll	414,166	110,951	55,769	40,415	27,906
Other Intergovernmental					16,715
Federal	29,333			119	
Investment Trades	299,904	87,550			
Interest					
Due To Other Funds	15,827	2,574	2,952	586	2,978
Interfund Payable	23,426	620			
Unearned Revenue	1,236,041	505,829	176,862	186,195	306,040
Obligations/Securities Lending	511,401				
Claims and Judgments	12,761	2,311	1,307	329	
Capital Lease Obligations	1,406	637	158	375	23
Employees' Compensable Leave	317,132	9,220	4,823	11,324	10,459
Notes and Loans Payable	607,570	8,008	27,159	25,123	
General Obligation Bonds Payable					
Revenue Bonds Payable	1,576,050	119,748	27,681	34,706	40,230
Funds Held for Others	32,935	34,369	31,541	9,009	4,345
Hedging Derivative Liability		2,244			
Other Current Liabilities	205,047	37,666	4,566	1,882	3,114
Total Current Liabilities	<u>6,131,214</u>	<u>1,298,592</u>	<u>375,929</u>	<u>352,414</u>	<u>470,570</u>
Noncurrent Liabilities:					
Interfund Payable	743,201	4,091			
Claims and Judgments	26,012	4,257	14,074	5	
Capital Lease Obligations	3,098	2,733	155	6,632	
Employees' Compensable Leave	156,199	93,259	35,077	12,063	10,018
Notes and Loans Payable	22,181	195,325			
General Obligation Bonds Payable					
Revenue Bonds Payable	5,508,973	2,222,470	520,389	842,330	732,136
Assets Held for Others	775,951	71,533			
Net OPEB Obligation	2,263,867	603,878			
Hedging Derivative Liability	334,084				
Other Noncurrent Liabilities	64,207	23,784	562		2,524
Total Noncurrent Liabilities	<u>9,897,773</u>	<u>3,221,330</u>	<u>570,257</u>	<u>861,030</u>	<u>744,678</u>
Total Liabilities	<u>16,028,987</u>	<u>4,519,922</u>	<u>946,186</u>	<u>1,213,444</u>	<u>1,215,248</u>
NET POSITION					
Invested in Capital Assets, Net of Related Debt	5,265,136	1,284,223	862,710	450,813	518,393
Restricted for:					
Education	1,654,456	263,085	285,518	156,605	74,822
Debt Retirement	5,665		27,939	55,229	3,194
Capital Projects	235,369	84,373	17,551	2,219	83,856
Funds Held as Permanent Investments:					
Nonexpendable	14,308,698	404,634	624,472	370,404	113,329
Expendable	5,705,278	133,894	37,769	42,725	13,222
Unrestricted	4,460,329	2,062,778	702,314	370,516	329,446
Total Net Position	<u>\$31,634,931</u>	<u>\$4,232,987</u>	<u>\$2,558,273</u>	<u>\$1,448,511</u>	<u>\$1,136,262</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 23,225	\$ 2,401	\$ 3,198	\$ 8,558	\$ 2,288	\$ 5,241	\$ 1,414,213
29,963	5,178	8,036	7,116	3,995	6,432	709,927
	1,717					18,432
	1,742				171	31,365
						387,454
		2,709	1,990		254	4,953
130	324	1,292	36			26,699
		1,496		252		25,794
166,140	37,862	62,470	46,995	23,001	16,447	2,763,882
						511,401
						16,708
7	223	84		19	582	3,514
2,737	2,034	427	2,574	180	588	361,498
2,434		782	2,462			673,538
		960	5,021	1,405	1,694	9,080
23,488	4,691	8,485	7,987	3,748	2,579	1,849,393
13,804		15,244		95	1,501	142,843
						2,244
9,598	1,149	3,630	13,624	68	1,278	281,622
<u>271,526</u>	<u>57,321</u>	<u>108,813</u>	<u>96,363</u>	<u>35,051</u>	<u>36,767</u>	<u>9,234,560</u>
		11,195		2,041	6,018	766,546
						44,348
3	1,167	170		95	4,071	18,124
18,083	1,261	3,440	2,766	1,325	4,710	338,201
39,198		807	61,043			318,554
		6,540	9,241	1,455	3,600	20,836
441,576	78,247	152,805	93,723	76,750	62,488	10,731,887
1,702						849,186
						2,867,745
						334,084
1,555			66	179		92,877
<u>502,117</u>	<u>80,675</u>	<u>174,957</u>	<u>166,839</u>	<u>81,845</u>	<u>80,887</u>	<u>16,382,388</u>
<u>773,643</u>	<u>137,996</u>	<u>283,770</u>	<u>263,202</u>	<u>116,896</u>	<u>117,654</u>	<u>25,616,948</u>
348,266	153,127	54,155	65,279	50,205	80,715	9,133,022
53,947	27,801	14,136	65		1,177	2,531,612
516	4,923		2,818		78	100,362
45,917	59,532	102		6,409	172	535,500
46,439	10,687	6,966	36,558	4,130	619	15,926,936
3,011		2,780		6,903		5,945,582
266,058	110,875	56,438	43,387	28,218	43,399	8,473,758
<u>\$ 764,154</u>	<u>\$ 366,945</u>	<u>\$ 134,577</u>	<u>\$ 148,107</u>	<u>\$ 95,865</u>	<u>\$ 126,160</u>	<u>\$ 42,646,772</u>

STATE OF TEXAS

Schedule of Revenues, Expenses and Changes in Net Position

Colleges and Universities – Major Enterprise Fund

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	University of Texas System	Texas A&M University System	Texas Tech University System	University of Houston System	Texas State University System
OPERATING REVENUES					
Tuition Revenue	\$	\$ 33,740	\$ 7,684	\$	\$
Tuition Revenue – Pledged	1,851,366	964,287	416,376	529,723	543,316
Discounts and Allowances	(458,153)	(228,045)	(92,619)	(87,461)	(127,370)
Hospital Revenue – Pledged	9,050,488				
Discounts and Allowances	(4,912,239)				
Professional Fees	4,084,298	925	247,383		
Professional Fees – Pledged	4,500	451	1,384		
Discounts and Allowances	(2,857,643)		(25,888)		
Auxiliary Enterprises					
Auxiliary Enterprises – Pledged	453,120	271,551	127,435	68,546	117,925
Discounts and Allowances	(13,784)	(28,888)			
Other Sales of Goods and Services		21,199	3,413		
Other Sales of Goods and Services – Pledged	387,130	216,992	10,385	37,866	23,826
Discounts and Allowances	(202)				
Interest and Investment Income		1,881			
Interest and Investment Income – Pledged					
Federal Revenue	1,394,359	412,683	59,848	60,408	33,760
State Grant Revenue		1,166	7,529	9,515	5,224
Other Operating Grant Revenue	362,796	201,983	154,335		6,859
Other Operating Grant Revenue – Pledged	651,957	23,930	3,341	19,298	
Other Revenues	7,484	33,506			108
Other Revenues – Pledged	102,414	24,658		894	11,442
Total Operating Revenues	<u>10,107,891</u>	<u>1,952,019</u>	<u>920,606</u>	<u>638,789</u>	<u>615,090</u>
OPERATING EXPENSES					
Cost of Goods Sold	92,127	20,259	11,783	2,467	7,007
Salaries and Wages	6,316,379	1,506,447	714,652	509,940	451,292
Payroll Related Costs	1,508,504	318,910	123,831	87,344	91,226
Professional Fees and Services	354,742	232,007	58,959	57,522	47,632
Travel	133,635	74,051	23,961	13,928	15,038
Materials and Supplies	1,382,170	224,619	68,039	38,255	85,440
Communication and Utilities	393,135	132,386	46,807	46,436	48,086
Repairs and Maintenance	233,002	96,738	33,957	14,912	19,244
Rentals and Leases	130,238	51,381	14,316	24,037	6,566
Printing and Reproduction	33,627	12,265	5,054	4,129	4,302
Depreciation and Amortization	1,015,622	235,012	113,594	78,676	69,615
Bad Debt Expense	2,688	1,011	1,169		900
Interest Expense		53	14	1,958	11
Scholarships	381,664	192,082	55,166	87,991	114,173
Claims and Judgments	11,426	5,296	1,113	1,389	84
Net Change in Pension/OPEB Obligations	497,215	127,069			
Other Expenses	851,437	269,853	91,195	35,139	27,511
Total Operating Expenses	<u>13,337,611</u>	<u>3,499,439</u>	<u>1,363,610</u>	<u>1,004,123</u>	<u>988,127</u>
Operating Loss	<u>(3,229,720)</u>	<u>(1,547,420)</u>	<u>(443,004)</u>	<u>(365,334)</u>	<u>(373,037)</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 6,627	\$ 808	\$ 3,747	\$	\$	\$ 7,673	\$ 60,279
310,109	89,506	87,270	82,526	40,644	36,954	4,952,077
(64,211)	(20,885)	(22,373)	(20,716)	(11,250)	(22,316)	(1,155,399)
						9,050,488
						(4,912,239)
78,727						4,411,333
						6,335
						(2,883,531)
1,275		1,674			907	3,856
51,136	27,562	37,657	11,919	8,258	13,185	1,188,294
(273)	(4,963)	(9,647)			(3,963)	(61,518)
		1,139				25,751
34,551		4,721	226	1,166	4,969	721,832
						(202)
						1,881
					104	104
49,704	3,274	5,053	38,226	1,399	6,526	2,065,240
2,702			1,233			27,369
16,934	1,059	1,058		210	2,373	747,607
			894			699,420
39	744		4,654			46,535
559	734	20		1,586		142,307
487,879	97,839	110,319	118,962	42,013	46,412	15,137,819
717	58	8,496			4,393	147,307
390,157	84,468	85,570	89,578	36,796	67,865	10,253,144
66,873	15,241	15,888	15,640	7,249	12,833	2,263,539
32,685	2,782	2,992	6,818	3,391	837	800,367
10,876	1,813	2,402	3,439	1,413	1,064	281,620
51,656	13,590	13,262	11,769	5,273	12,163	1,906,236
16,543	7,076	10,523	6,214	2,974	6,452	716,632
20,475	3,801	5,459	4,488	2,021	2,466	436,563
7,078	2,031	1,738	2,457	629	1,344	241,815
4,043	642	561	716	111	100	65,550
49,831	14,433	16,340	14,270	9,748	9,804	1,626,945
420	906	354	2,175	121		9,744
1					2	2,039
63,978	15,790	19,466	26,616	8,539	12,440	977,905
						19,308
						624,284
51,167	6,724	4,577	11,773		8,907	1,358,283
766,500	169,355	187,628	195,953	78,265	140,670	21,731,281
(278,621)	(71,516)	(77,309)	(76,991)	(36,252)	(94,258)	(6,593,462)

Concluded on the following page

STATE OF TEXAS

Schedule of Revenues, Expenses and Changes in Net Position

Colleges and Universities – Major Enterprise Fund (concluded)

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	University of Texas System	Texas A&M University System	Texas Tech University System	University of Houston System	Texas State University System
NONOPERATING REVENUES (EXPENSES)					
Federal Revenue	\$ 338,058	\$ 199,778	\$ 45,246	\$ 78,356	\$ 103,779
Gifts	306,255	99,298	81,187		31,865
Gifts – Pledged	25,571	20,400	4,011	78,122	
Land Income		6,398			
Interest and Investment Income	3,293,123	76,579	36,020		11,948
Interest and Investment Income – Pledged	285,051	70,120	10,191	31,619	
Investing Activities Expense	(71,800)	(3,925)			
Interest Expense	(268,856)	(106,367)	(24,016)	(38,013)	(36,692)
Borrower Rebates and Agent Fees		(2,185)			
Gain (Loss) on Sale of Capital Assets	(14,735)	543	(1,066)		(431)
Claims and Judgments		(167)			(255)
Other Revenues		7,536	9,610		
Other Revenues – Pledged	17,798	7,477	1,323	48,734	(69)
Other Expenses	(28,862)	(52,617)		(38,990)	(2,216)
Total Nonoperating Revenues (Expenses)	<u>3,881,603</u>	<u>322,868</u>	<u>162,506</u>	<u>159,828</u>	<u>107,929</u>
Income (Loss) Before Capital Contributions, Endowments and Transfers	<u>651,883</u>	<u>(1,224,552)</u>	<u>(280,498)</u>	<u>(205,506)</u>	<u>(265,108)</u>
CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS					
Capital Contributions – Federal	15,260				29
Capital Contributions – Other	213,519	2,151	11,663	4	3,116
Contributions to Permanent and Term Endowments	119,071	5,400	661	8,313	1,197
Transfer In	2,441,267	1,484,545	420,867	339,027	336,717
Transfer Out	(516,311)	(14,842)	(15,037)	(9,092)	(9,409)
Total Capital Contributions, Endowments and Transfers	<u>2,272,806</u>	<u>1,477,254</u>	<u>418,154</u>	<u>338,252</u>	<u>331,650</u>
Change in Net Position	<u>2,924,689</u>	<u>252,702</u>	<u>137,656</u>	<u>132,746</u>	<u>66,542</u>
Net Position, September 1, 2011	28,734,619	3,977,927	2,420,617	1,315,996	1,065,290
Restatements	(24,377)	2,358		(231)	4,430
Net Position, September 1, 2011, as Restated	<u>28,710,242</u>	<u>3,980,285</u>	<u>2,420,617</u>	<u>1,315,765</u>	<u>1,069,720</u>
Net Position, August 31, 2012	<u>\$31,634,931</u>	<u>\$4,232,987</u>	<u>\$2,558,273</u>	<u>\$1,448,511</u>	<u>\$1,136,262</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 44,415	\$ 20,062	\$ 22,201	\$	\$ 8,794	\$ 26,611	\$ 887,300
12,284	1,186	2,905		6,722		541,702
		10	2,112		726	130,952
		117		10		6,525
6,333	1,006	798	1,681	16	99	3,427,603
	4,234	977	3,284	2,112	157	407,745
(148)		(105)	(277)			(76,255)
(21,587)	(3,860)	(7,446)	(7,630)	(3,575)	(3,377)	(521,419)
						(2,185)
(583)	(4,223)	(379)		(46)	(115)	(21,035)
(264)						(686)
2,997		94			19	20,256
			10,208			85,471
(988)	(14)	(560)		(2)	(10,158)	(134,407)
<u>42,459</u>	<u>18,391</u>	<u>18,612</u>	<u>9,378</u>	<u>14,031</u>	<u>13,962</u>	<u>4,751,567</u>
<u>(236,162)</u>	<u>(53,125)</u>	<u>(58,697)</u>	<u>(67,613)</u>	<u>(22,221)</u>	<u>(80,296)</u>	<u>(1,841,895)</u>
						15,289
1,617		88	38	4,999	7,196	244,391
1,688		97	151	222		136,800
249,218	66,338	60,661	76,547	24,991	82,275	5,582,453
(5,656)	(2,161)	(1,199)	(831)	(962)	(926)	(576,426)
<u>246,867</u>	<u>64,177</u>	<u>59,647</u>	<u>75,905</u>	<u>29,250</u>	<u>88,545</u>	<u>5,402,507</u>
<u>10,705</u>	<u>11,052</u>	<u>950</u>	<u>8,292</u>	<u>7,029</u>	<u>8,249</u>	<u>3,560,612</u>
753,479	355,730	133,646	139,955	88,899	117,978	39,104,136
(30)	163	(19)	(140)	(63)	(67)	(17,976)
<u>753,449</u>	<u>355,893</u>	<u>133,627</u>	<u>139,815</u>	<u>88,836</u>	<u>117,911</u>	<u>39,086,160</u>
<u>\$ 764,154</u>	<u>\$ 366,945</u>	<u>\$ 134,577</u>	<u>\$ 148,107</u>	<u>\$ 95,865</u>	<u>\$ 126,160</u>	<u>\$ 42,646,772</u>

STATE OF TEXAS

Schedule of Cash Flows**Colleges and Universities – Major Enterprise Fund**

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	University of Texas System	Texas A&M University System	Texas Tech University System	University of Houston System	Texas State University System
CASH FLOWS FROM OPERATING ACTIVITIES					
Proceeds from Customers	\$ 5,292,226	\$ 235,480	\$ 239,060	\$ 37,607	\$ 17,680
Proceeds from Tuition and Fees	1,421,171	757,834	328,631	440,123	435,022
Proceeds from Research Grants and Contracts	2,401,810	792,047	237,311	123,844	39,273
Proceeds from Loan Programs	105,840	8,199	1,583	148,142	35,682
Proceeds from Auxiliaries	443,805	232,700	123,385	67,639	117,067
Proceeds from Other Operating Revenues	507,889	68,850		931	18,255
Payments to Suppliers for Goods and Services	(4,159,886)	(1,117,426)	(190,468)	(210,929)	(290,011)
Payments to Employees	(7,794,276)	(1,829,059)	(842,549)	(596,820)	(538,782)
Payments for Loans Provided	(108,976)	(9,050)	(785)	(154,798)	(35,895)
Payments for Other Operating Expenses		(228,729)	(234,908)	(110,566)	(97,935)
Net Cash Used by Operating Activities	<u>(1,890,397)</u>	<u>(1,089,154)</u>	<u>(338,740)</u>	<u>(254,827)</u>	<u>(299,644)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Proceeds from Debt Issuance					1,995
Proceeds from Gifts	346,952	135,517	64,586	53,417	33,177
Proceeds from Endowments	115,942	5,400		8,313	106
Proceeds from Transfers from Other Funds	2,229,333	1,319,169	337,309	339,888	301,629
Proceeds from Loan Programs					25
Proceeds from Grant Receipts		210,854	45,256	78,380	103,653
Proceeds from Interfund Payables					71,415
Proceeds from Other Noncapital Financing Activities	332,045	99,977	74,706		851
Payments of Principal on Debt Issuance					(36,450)
Payments of Interest					(37,145)
Payments of Other Costs of Debt Issuance					(122)
Payments for Transfers to Other Funds	(239,528)	(14,314)	(9,933)	(46,741)	(3,706)
Payments for Grant Disbursements					
Payments for Other Noncapital Uses	<u>(5,087)</u>	<u>(64,473)</u>	<u>(12,999)</u>	<u>(863)</u>	<u>(10,709)</u>
Net Cash Provided by Noncapital Financing Activities	<u>2,779,657</u>	<u>1,692,130</u>	<u>498,925</u>	<u>432,394</u>	<u>424,719</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from Sale of Capital Assets	3,986	1,574	148		
Proceeds from Debt Issuance	912,381	691,494	263,583	287,112	13,378
Proceeds from State Grants and Contracts		24,176			
Proceeds from Federal Grants and Contracts					11
Proceeds from Gifts					
Proceeds from Other Capital and Related Financing Activities		40		114,509	24,091
Proceeds from Capital Contributions	242,178		52,076	50,929	
Proceeds from Interfund Payables		4,711			
Payments for Additions to Capital Assets	(1,662,436)	(436,508)	(156,029)	(189,343)	(157,197)
Payments of Principal on Debt Issuance	(691,981)	(475,007)	(219,875)	(99,515)	(49,051)
Payments for Capital Leases		(416)		(366)	(21)
Payments of Interest on Debt Issuance	(268,981)	(106,367)	(27,129)	(38,014)	(17,722)
Payments of Other Costs on Debt Issuance	(8,272)	(2,182)	(1,538)	(143,803)	(540)
Payments for Interfund Receivables		(3,256)			
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,473,125)</u>	<u>(301,741)</u>	<u>(88,764)</u>	<u>(18,491)</u>	<u>(187,051)</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 123,342	\$	\$ 5,716	\$	\$	\$ 5,201	\$ 5,956,312
256,322	69,429	72,082	58,597	29,688	20,784	3,889,683
70,519	4,334	3,718	47,811	1,672	9,449	3,731,788
8,201						307,647
52,138	22,598	29,740	11,919	8,320	9,935	1,119,246
552	1,477	20	1,074	2,752		601,800
(235,350)	(38,481)	(49,620)		(17,651)	(35,961)	(6,345,783)
(471,779)	(99,709)	(101,504)	(104,439)	(43,438)	(82,540)	(12,504,895)
(6,193)	(9,595)	(21,368)				(346,660)
(84,450)		(529)	(75,530)	(8,613)	(13,543)	(854,803)
<u>(286,698)</u>	<u>(49,947)</u>	<u>(61,745)</u>	<u>(60,568)</u>	<u>(27,270)</u>	<u>(86,675)</u>	<u>(4,445,665)</u>
						1,995
10,831	1,186	2,915	3,053	4,766		656,400
1,688				222		131,671
227,566	65,498	54,972	86,422	20,875	78,770	5,061,431
	20,062					20,087
44,180		22,201		8,814	26,611	539,949
						71,415
3,647					18	511,244
						(36,450)
						(37,145)
						(122)
(2,527)	(36)	(1,199)	(126)	(962)		(319,072)
		(560)				(560)
<u>(968)</u>	<u></u>	<u>(111)</u>	<u></u>	<u>(2)</u>	<u>(9,734)</u>	<u>(104,946)</u>
<u>284,417</u>	<u>86,710</u>	<u>78,218</u>	<u>89,349</u>	<u>33,713</u>	<u>95,665</u>	<u>6,495,897</u>
		3				5,711
55,997	17,915	3,202	64,180	43	32,706	2,341,991
		8,426				32,602
						11
					3,868	3,868
25,153		126		3,559		167,478
1,444		88		3,889		350,604
					2,523	7,234
(89,309)	(14,480)	(11,830)	(80,759)	(4,617)	(19,929)	(2,822,437)
(19,708)	(23,410)	(10,863)	(14,036)	(4,920)	(10,545)	(1,618,911)
	(212)			(12)		(1,027)
(25,557)	(3,860)	(7,667)	(7,699)	(3,575)	(3,391)	(509,962)
(825)					(1,349)	(158,509)
						(3,256)
<u>(52,805)</u>	<u>(24,047)</u>	<u>(18,515)</u>	<u>(38,314)</u>	<u>(5,633)</u>	<u>3,883</u>	<u>(2,204,603)</u>

Concluded on the following page

STATE OF TEXAS

Schedule of Cash Flows**Colleges and Universities – Major Enterprise Fund (concluded)**

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	University of Texas System	Texas A&M University System	Texas Tech University System	University of Houston System	Texas State University System
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from Sale of Investments	\$ 9,921,694	\$ 1,603,339	\$ 389,701	\$ 577,782	\$ 186,463
Proceeds from Interest and Investment Income	1,370,544	47,682	55,726	13,870	3,493
Payments to Acquire Investments	(10,424,839)	(1,720,649)	(461,471)	(690,495)	(198,722)
Net Cash Provided (Used) by Investing Activities	867,399	(69,628)	(16,044)	(98,843)	(8,766)
Net Increase (Decrease) in Cash and Cash Equivalents	283,534	231,607	55,377	60,233	(70,742)
Cash and Cash Equivalents, September 1, 2011	2,176,289	861,794	464,693	323,656	608,243
Cash and Cash Equivalents, August 31, 2012	\$ 2,459,823	\$ 1,093,401	\$ 520,070	\$ 383,889	\$ 537,501
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES					
Operating Loss	\$ (3,229,720)	\$ (1,547,420)	\$ (443,004)	\$ (365,334)	\$ (373,037)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:					
Depreciation and Amortization	1,015,622	235,012	113,594	78,676	69,615
Bad Debt Expense	249,415	2,218	1,169		581
Operating Loss and Cash Flow Categories Classification Differences	(51,592)	(84)	(2)	(6,675)	(273)
Changes in Assets and Liabilities:					
(Increase) Decrease in Receivables	(333,302)	18,144	2,582	28,786	(26,664)
(Increase) Decrease in Due From Other Funds		(1,316)	1,323		(1,763)
(Increase) Decrease in Inventories	(7,857)	(742)	(449)	61	381
(Increase) Decrease in Notes Receivable			532		(650)
(Increase) Decrease in Loans and Contracts	(3,135)	(951)			(1,755)
(Increase) Decrease in Other Assets	(43,046)	586		(7,892)	1
(Increase) Decrease in Prepaid Expenses		(6,813)	(6,765)	1,624	4,703
Increase (Decrease) in Payables	(79,802)	52,176	(2,063)	10,791	(11,177)
Increase (Decrease) in Deposits	(8,084)	2,745			19
Increase (Decrease) in Due To Other Funds		1,069	695		1,183
Increase (Decrease) in Unearned Revenue	75,936	21,880	(1,457)	4,362	38,119
Increase (Decrease) in Employees' Compensable Leave	20,118	1,267	(1,107)	(544)	1,093
Increase (Decrease) in Benefits Payable	497,214	127,068	(1,708)	1,007	859
Increase (Decrease) in Other Liabilities	7,836	6,007	(2,080)	311	(879)
Total Adjustments	1,339,323	458,266	104,264	110,507	73,393
Net Cash Used by Operating Activities	\$ (1,890,397)	\$ (1,089,154)	\$ (338,740)	\$ (254,827)	\$ (299,644)
NONCASH TRANSACTIONS					
Donation of Capital Assets	\$ 57,245	\$ 2,083	\$ 11,663	\$	\$ 527
Net Change in Fair Value of Investments	\$ 1,558,117	\$ 95,034	\$ 18,561	\$ 16,097	\$ 8,118
Borrowing Under Capital Lease Purchase	\$ 2,266	\$	\$ 274	\$	\$
Other	\$ (26,311)	\$ 306,899	\$ (915)	\$	\$ (93)

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 39,414	\$ 39,974	\$	\$ 448	\$ 14,072	\$ 10,513	\$ 12,783,400
4,520	4,567	1,522	1,404	720	316	1,504,364
(68,556)	(52,819)	(5,866)	(10,644)	(14,453)	(25,802)	(13,674,316)
(24,622)	(8,278)	(4,344)	(8,792)	339	(14,973)	613,448
(79,708)	4,438	(6,386)	(18,325)	1,149	(2,100)	459,077
386,694	12,344	67,564	66,690	5,688	39,161	5,012,816
<u>\$ 306,986</u>	<u>\$ 16,782</u>	<u>\$ 61,178</u>	<u>\$ 48,365</u>	<u>\$ 6,837</u>	<u>\$ 37,061</u>	<u>\$ 5,471,893</u>
\$ (278,621)	\$ (71,516)	\$ (77,309)	\$ (76,991)	\$ (36,252)	\$ (94,258)	\$ (6,593,462)
49,831	14,433	16,340	14,270	9,748	9,804	1,626,945
420	906	354		121		255,184
142			2,955	(20)	(104)	(55,653)
(16,035)	12,020	3,080	3,403	(359)	(624)	(308,969)
(477)	555	(65)		(1)	889	(378)
	(72)	(144)	(6)	1	336	(8,968)
						(118)
1,209		(528)		252		(4,908)
(10,250)	44	(9)	1,254	(89)	1	(60,609)
		(1,011)				(7,053)
(42,325)	(151)	(4,271)	4,074	(1,323)	(1,043)	(75,114)
					277	(5,043)
	(622)	129				2,454
9,490	(5,454)	2,765	(4,837)	639	(1,478)	139,965
	(102)	205	516	13	(431)	21,028
						624,440
(82)	12	(1,281)	(5,206)		(44)	4,594
(8,077)	21,569	15,564	16,423	8,982	7,583	2,147,797
<u>\$ (286,698)</u>	<u>\$ (49,947)</u>	<u>\$ (61,745)</u>	<u>\$ (60,568)</u>	<u>\$ (27,270)</u>	<u>\$ (86,675)</u>	<u>\$ (4,445,665)</u>
\$ (582)	\$	\$	\$ 1,469	\$	\$ 4,052	\$ 76,457
\$ 1,718	\$ 674	\$ 589	\$ 3,284	\$ 1,285	\$	\$ 1,703,477
\$	\$	\$	\$	\$	\$ 5	\$ 2,545
\$ 1,666	\$	\$	\$	\$ 445	\$ 708	\$ 282,399



Section Two
(continued)

Fiduciary
Funds
(And Similar Component Units)

Pension and Other Employee Benefit Trust Funds

The **Teacher Retirement System Trust Account** is for the accumulation of resources for pension benefit payments for qualified employees of public education in Texas.

The **State Employees Retirement System (S.E.R.S.) Trust Account** is for the accumulation of resources for pension benefit payments to qualified state employees or beneficiaries.

The **Law Enforcement and Custodial Officer Supplement Retirement Fund** provides supplemental retirement and death benefits for members of the Employees Retirement System of Texas who completed 20 or more years of service or became occupationally disabled or died while serving as commissioned law enforcement officers of a state agency.

The **Judicial Retirement System – Plan Two Trust Fund** accounts for receipt of monies for retirement and death benefits for certain state-paid judges and judicial officers.

The **Fire Fighters’ Relief and Retirement Fund** accounts for the accumulation of resources for pension, death and disability benefits for fire fighters who serve without monetary reward.

The **Judicial Retirement System – Plan One Fund** accounts for appropriations received from the state’s general revenue fund for annuity and refund payments to eligible judicial employees.

The **Retired School Employees Group Insurance Trust** receives contributions and other funds authorized

to be deposited in the fund to pay insurance premiums, to reimburse for claims paid by a non-state entity and to pay administrative expenses. The Teacher Retirement System of Texas, as trustee, administers the fund for public school retirees and their dependents. The public school entities are not considered part of the reporting entity for the state of Texas.

The **State Retiree Health Plan Trust** accounts for the receipt of monies for postemployment health care, life and dental insurance benefits provided under the Group Benefits Program. The Employees Retirement System of Texas, as trustee, administers the fund for retired employees of the state and other non-state entities as specified by the Legislature.

The **Deferred Compensation Trust Fund** receives employee deferrals in accordance with Internal Revenue Code 457, appropriations by the state for the administration of the deferred compensation plan, trust income, and fees. The state of Texas is the only employer participating in the plan.

The **State Employee Cafeteria Plan Trust Fund** receives salary reduction payments and makes disbursements for benefits included in a cafeteria plan, other than Employees Uniform Group Insurance Program coverages. The fund also receives appropriations by the state for the administration of the cafeteria plan.

The **Texa\$aver Administrative Trust Fund** receives deferrals, purchases qualified investments and pays expenses associated with administration of the deferred compensation plan.

STATE OF TEXAS

Combining Statement of Fiduciary Net Position – Pension and Other Employee Benefit Trust Funds

August 31, 2012 (Amounts in Thousands)

	Teacher Retirement System Trust Account	S.E.R.S. Trust Account	Law Enforcement and Custodial Officer Supplement Retirement Fund	Judicial Retirement System - Plan Two Trust Fund	Fire Fighters' Relief and Retirement Fund
ASSETS					
Cash and Cash Equivalents	\$ 1,188,154	\$ 40,601	\$ 2,011	\$ 1,075	\$ 229
Securities Lending Collateral	21,557,057	1,334,399	45,848	18,017	
Investments:					
U.S. Government	19,408,991	6,800,539	233,341	92,134	
Corporate Equity	22,026,999	6,380,862	218,941	86,448	29,333
Corporate Obligations	578,596	302,437	10,377	4,097	
Foreign Securities	25,959,294	5,186,598	177,963	70,268	19,796
Externally Managed Investments	33,867,730	2,025,667	69,505	27,444	
Other	8,151,620	1,021,944	35,010	13,779	17,737
Receivables:					
Federal					
Interest and Dividends	245,553	81,889	2,810	1,110	46
Accounts	127,122	57,480	601	687	1,151
Investment Trades	1,310,240	70,196	2,409	951	123
Other	446				
Due From Other Funds	2,683	7,368			
Prepaid Items		3,323	114	45	
Properties, at Cost, Net of Accumulated Depreciation or Amortization	29,086	11,454			
Total Assets	134,453,571	23,324,757	798,930	316,055	68,415
LIABILITIES					
Payables:					
Accounts	\$ 31,222	\$ 18,537	\$ 446	\$ 182	\$ 142
Investment Trades	521,430	140,223	4,811	1,900	192
Payroll	3,024				
Annuities	691,237				
Due To Other Funds	77,360	3,275	157	45	
Unearned Revenue	29,989	558			142
Employees' Compensable Leave	5,222	2,261			
Obligations/Securities Lending	21,535,537	1,334,259	45,843	18,015	
Other Liabilities	108,663				
Total Liabilities	23,003,684	1,499,113	51,257	20,142	476
NET POSITION					
Held in Trust for Pension Benefits and Other Purposes	\$ 111,449,887	\$ 21,825,644	\$ 747,673	\$ 295,913	\$ 67,939

Judicial Retirement System - Plan One Fund	Retired School Employees Group Insurance Trust	State Retiree Health Plan Trust	Deferred Compensation Trust Fund	State Employee Cafeteria Plan Trust Fund	TexaSaver Administrative Trust Fund	Totals
\$	\$ 807,899	\$ 27,742	\$ 2,344	\$ 7,914	\$ 2,797	\$ 2,080,766
						22,955,321
						26,535,005
						28,742,583
						895,507
						31,413,919
						35,990,346
		109,579				9,349,669
	9,970					9,970
	316	1		3	1	331,729
	49,858	11,066	39	6,969	48	255,021
						1,383,919
	1,000					1,446
292		1,331		8	55	11,737
				250		3,732
						40,540
292	869,043	149,719	2,383	15,144	2,901	160,001,210
\$ 292	\$ 107,880	\$ 127,724	\$ 1,276	\$ 11,681	\$	\$ 299,382
	110					668,556
						3,134
	19,820	21,261	99	45	66	691,237
		734	19			122,128
	219					31,442
						7,702
						22,933,654
						108,663
292	128,029	149,719	1,394	11,726	66	24,865,898
\$ 0	\$ 741,014	\$ 0	\$ 989	\$ 3,418	\$ 2,835	\$ 135,135,312

STATE OF TEXAS

Combining Statement of Changes in Fiduciary Net Position – Pension and Other Employee Benefit Trust Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Teacher Retirement System Trust Account	S.E.R.S. Trust Account	Law Enforcement and Custodial Officer Supplement Retirement Fund	Judicial Retirement System - Plan Two Trust Fund	Fire Fighters' Relief and Retirement Fund
ADDITIONS					
Contributions:					
Member Contributions	\$ 2,188,020	\$ 411,066	\$ 7,287	\$ 4,170	\$ 3,891
State Contributions	1,395,040	347,121	(3)	4,150	
Premium Contributions					
Federal Contributions					
Other Contributions	795,277				
Total Contributions	<u>4,378,337</u>	<u>758,187</u>	<u>7,284</u>	<u>8,320</u>	<u>3,891</u>
Investment Income:					
From Investing Activities:					
Net Appreciation in Fair Value of Investments	5,972,016	1,096,853	33,945	34,224	3,676
Interest and Investment Income	1,923,959	567,786	19,574	7,587	1,650
Total Investing Income	<u>7,895,975</u>	<u>1,664,639</u>	<u>53,519</u>	<u>41,811</u>	<u>5,326</u>
Less Investing Activities Expense	153,283	55,631	1,805	706	435
Net Income from Investing Activities	<u>7,742,692</u>	<u>1,609,008</u>	<u>51,714</u>	<u>41,105</u>	<u>4,891</u>
From Securities Lending Activities:					
Securities Lending Income	168,074	2,696	93	36	
Less Securities Lending Expense:					
Borrower Rebates*	28,029	(3,490)	(120)	(47)	
Management Fees	35,439	524	18	7	
Net Income from Securities Lending	<u>104,606</u>	<u>5,662</u>	<u>195</u>	<u>76</u>	<u>0</u>
Total Net Investment Income	<u>7,847,298</u>	<u>1,614,670</u>	<u>51,909</u>	<u>41,181</u>	<u>4,891</u>
Other Additions:					
Other Revenue	1,868	268	1		2
Transfer In	15,011	71,329			
Total Other Additions	<u>16,879</u>	<u>71,597</u>	<u>1</u>	<u>0</u>	<u>2</u>
Total Additions	<u>12,242,514</u>	<u>2,444,454</u>	<u>59,194</u>	<u>49,501</u>	<u>8,784</u>
DEDUCTIONS					
Benefits	7,725,763	1,701,963	46,874	12,803	3,522
Refunds of Contributions	381,231	88,069	1,219	179	
Transfer Out	73,345	15,051			
Administrative Expenses	30,914	16,015	829	226	89
Depreciation and Amortization Expense	1,618	1,010			
Interest Expense					
Other Expenses	<u>541</u>	<u>795</u>	<u>15</u>	<u>4</u>	<u>3</u>
Total Deductions	<u>8,213,412</u>	<u>1,822,903</u>	<u>48,937</u>	<u>13,212</u>	<u>3,614</u>
INCREASE (DECREASE) IN NET POSITION	<u>4,029,102</u>	<u>621,551</u>	<u>10,257</u>	<u>36,289</u>	<u>5,170</u>
NET POSITION					
Net Position, September 1, 2011	107,420,785	21,204,093	737,416	259,624	62,465
Restatements					304
Net Position, September 1, 2011, as Restated	<u>107,420,785</u>	<u>21,204,093</u>	<u>737,416</u>	<u>259,624</u>	<u>62,769</u>
Net Position, August 31, 2012	<u>\$ 111,449,887</u>	<u>\$ 21,825,644</u>	<u>\$ 747,673</u>	<u>\$ 295,913</u>	<u>\$ 67,939</u>

* The pension funds of the Employees Retirement System of Texas received rebates from borrowers in excess of payments made to borrowers due to increased demand in the securities lending market.

Judicial Retirement System - Plan One Fund	Retired School Employees Group Insurance Trust	State Retiree Health Plan Trust	Deferred Compensation Trust Fund	State Employee Cafeteria Plan Trust Fund	TexaSaver Administrative Trust Fund	Totals
\$	\$ 176,751	\$ 134,993	\$	\$ 94,072	\$	\$ 3,020,250
	245,618	483,636				2,475,562
	363,348					363,348
	68,634	80,336				148,970
	179,002			1,915		976,194
0	1,033,353	698,965	0	95,987	0	6,984,324
						7,140,714
	5,190	329	12	19	27	2,526,133
0	5,190	329	12	19	27	9,666,847
		1				211,861
0	5,190	328	12	19	27	9,454,986
						170,899
						24,372
						35,988
0	0	0	0	0	0	110,539
0	5,190	328	12	19	27	9,565,525
			485	76	606	3,306
26,464	2,017					114,821
26,464	2,017	0	485	76	606	118,127
26,464	1,040,560	699,293	497	96,082	633	16,667,976
26,464	1,186,702	696,085		92,093		11,492,269
						470,698
	3,708	3,014	437	447	576	88,396
						56,255
						2,628
				12		12
	6	194	15	2,027	20	3,620
26,464	1,190,416	699,293	452	94,579	596	12,113,878
0	(149,856)	0	45	1,503	37	4,554,098
	890,870		944	1,915	2,798	130,580,910
0	890,870	0	944	1,915	2,798	304
						130,581,214
\$ 0	\$ 741,014	\$ 0	\$ 989	\$ 3,418	\$ 2,835	\$ 135,135,312

Private-Purpose Trust Funds

The **Tobacco Settlement Permanent Trust (Political Subdivisions)** holds the portion of the money received in the settlement of the State of Texas v. The American Tobacco Co., et. al., designated for the exclusive benefit of other political subdivisions. Other political subdivisions include cities, counties and/or local hospital districts that are responsible for indigent health care. The fund is administered by the Comptroller's office - Treasury Fiscal.

The **Texas Insurance Companies Assets Account – Reserve and Custodial Fund** holds assets in trust for claims associated with insurance company liquidations. Most balances are normally held outside the Treasury. The Department of Insurance administers the fund.

The **Catastrophe Reserve Trust Fund** is a state fund created to provide relief to insurance companies within the state in the event of certain catastrophic losses. Certain property insurers authorized to transact property insurance in Texas make payments to the fund.

The **Inmate Trust and Employee Service Option Fund** accounts for offender commissary and medical accounts along with the Texas Department of Criminal Justice employee commissary, laundry and/or barber contributions.

The **Texas College Savings Plans** receive money contributed by account holders, money acquired from private sources and income from investment of deposits. The plans may be used only to pay costs of program administration and operations, make payments to state, private or independent institutions of higher education and make refunds to account holders.

Other Private-Purpose Trust Funds account for other assets held in a trustee capacity where principal and income benefit individuals, private organizations or other governments.

STATE OF TEXAS

Combining Statement of Fiduciary Net Position – Private-Purpose Trust Funds

August 31, 2012 (Amounts in Thousands)

	Tobacco Settlement Permanent Trust (Political Subdivisions)	Texas Insurance Companies Assets Account - Reserve and Custodial Fund	Catastrophe Reserve Trust Fund	Inmate Trust and Employee Service Option Fund	Texas College Savings Plans	Other Private- Purpose Trust Funds	Totals
ASSETS							
Cash and Cash Equivalents	\$	\$259,554	\$176,199	\$ 6,391	\$ 2,089	\$42,675	\$ 486,908
Restricted Cash and Cash Equivalents						14	14
Investments:							
U.S. Government				18,947		1,232	20,179
Corporate Equity	256,175					11,264	267,439
Corporate Obligations						2,388	2,388
Other	1,783,154				355,998	15,529	2,154,681
Receivables:							
Interest and Dividends	46	1	1		28	11	87
Accounts						212	212
Investment Trades	15,053				692		15,745
Other					102	4,301	4,403
Due From Other Funds						6	6
Properties, at Cost, Net of Accumulated Depreciation or Amortization						843	843
Other Assets		91,292					91,292
Total Assets	2,054,428	350,847	176,200	25,338	358,909	78,475	3,044,197
LIABILITIES							
Payables:							
Accounts	\$ 1,035	\$ 1	\$	\$ 2,505	\$ 129	\$17,187	\$ 20,857
Investment Trades	1,976				490		2,466
Interest						14	14
Due To Other Funds					3	5	8
Unearned Revenue					373	18	391
Funds Held for Others		91,292					91,292
Other Liabilities					19		19
Total Liabilities	3,011	91,293	0	2,505	1,014	17,224	115,047
NET POSITION							
Held in Trust for Individuals, Organizations and Other Governments	2,051,417	259,554	176,200	22,833	357,895	61,251	2,929,150
Total Net Position	<u>\$2,051,417</u>	<u>\$259,554</u>	<u>\$176,200</u>	<u>\$22,833</u>	<u>\$357,895</u>	<u>\$61,251</u>	<u>\$2,929,150</u>

STATE OF TEXAS

Combining Statement of Changes in Fiduciary Net Position – Private-Purpose Trust Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Tobacco Settlement Permanent Trust (Political Subdivisions)	Texas Insurance Companies Assets Account - Reserve and Custodial Fund	Catastrophe Reserve Trust Fund	Inmate Trust and Employee Service Option Fund	Texas College Savings Plans	Other Private- Purpose Trust Funds	Totals
ADDITIONS							
Contributions:							
Federal Contributions	\$	\$	\$	\$	\$	\$ 7,299	\$ 7,299
Other Contributions					121,453		121,453
Total Contributions	0	0	0	0	121,453	7,299	128,752
Investment Income:							
From Investing Activities:							
Net Appreciation in							
Fair Value of Investments	32,878				27,285	458	60,621
Interest and Investment Income	24,164	208	120		1,730	1,389	27,611
Total Investing Income	57,042	208	120	0	29,015	1,847	88,232
Less Investing Activities Expense					1,420		1,420
Net Income from Investing							
Activities	57,042	208	120	0	27,595	1,847	86,812
Total Net Investment Income	57,042	208	120	0	27,595	1,847	86,812
Other Additions:							
Settlement of Claims						4,964	4,964
Other Revenue		111,793	46,164	143,879	384	3,115	305,335
Total Other Additions	0	111,793	46,164	143,879	384	8,079	310,299
Total Additions	57,042	112,001	46,284	143,879	149,432	17,225	525,863
DEDUCTIONS							
Benefits					95,151	586	95,737
Transfer Out						188	188
Intergovernmental Payments	50,000					8,669	58,669
Administrative Expenses	6,063	20			386	304	6,773
Depreciation and Amortization Expense						39	39
Settlement of Claims		88,145				5,519	93,664
Interest Expense						4	4
Other Expenses		43,724	8	143,556		1,262	188,550
Total Deductions	56,063	131,889	8	143,556	95,537	16,571	443,624
INCREASE (DECREASE) IN NET POSITION	979	(19,888)	46,276	323	53,895	654	82,239
NET POSITION							
Net Position, September 1, 2011	2,050,438	279,442	129,924	22,510	304,000	60,597	2,846,911
Net Position, August 31, 2012	\$ 2,051,417	\$ 259,554	\$ 176,200	\$ 22,833	\$ 357,895	\$ 61,251	\$ 2,929,150

Agency Funds

The **Texas Public Finance Authority Bond Escrow Account** is used to hold funds for various defeased or refunded bonds.

The **Life, Health, Accident and Casualty Insurance Companies Trust Account** holds cash or securities deposited with the state by insurance companies as required by law.

The **Texas Workers' Compensation Self-Insurance Fund** is used to deposit certified self-insurer security deposits. These deposits may be applied to the self-insurer's incurred liabilities for compensation.

The **City, County, Metropolitan Transit Authority (MTA) and Special Purpose District (SPD) Sales Tax Trust Account** is used to record the receipt of local sales and use tax collected by the Comptroller's office for each city, county, metropolitan transit authority and special purpose district authorizing the collection.

Other Agency Funds account for other resources held by the state in an agent capacity for individuals, private organizations or other governments.

STATE OF TEXAS

Combining Statement of Fiduciary Net Position – Agency Funds

August 31, 2012 (Amounts in Thousands)

	Texas Public Finance Authority Bond Escrow Account	Life, Health, Accident and Casualty Insurance Companies Trust Account	Texas Workers' Compensation Self Insurance Fund	City, County, MTA and SPD Sales Tax Trust Account	Other Agency Funds	Totals
ASSETS						
Cash and Cash Equivalents	\$ 148	\$ 317	\$ 8,980	\$ 791,322	\$ 269,567	\$ 1,070,334
Investments:						
U.S. Government	215,562				42	215,604
Corporate Equity					177,289	177,289
Corporate Obligations					10	10
Repurchase Agreements					32,313	32,313
Other					59,870	59,870
Receivables:						
Interest and Dividends	1,236					1,236
Accounts					7,979	7,979
Other Intergovernmental					2,358	2,358
Due From Other Funds					900	900
Other Assets		1,095,984	535,066		111,103	1,742,153
Total Assets	<u>\$216,946</u>	<u>\$1,096,301</u>	<u>\$544,046</u>	<u>\$791,322</u>	<u>\$661,431</u>	<u>\$3,310,046</u>
LIABILITIES						
Payables:						
Accounts	\$	\$	\$	\$	\$ 205	\$ 205
Other Intergovernmental				791,322		791,322
Due To Other Funds					27,229	27,229
Funds Held for Others	216,946	1,096,301	544,046		633,986	2,491,279
Other Liabilities					11	11
Total Liabilities	<u>\$216,946</u>	<u>\$1,096,301</u>	<u>\$544,046</u>	<u>\$791,322</u>	<u>\$661,431</u>	<u>\$3,310,046</u>

STATE OF TEXAS

Combining Statement of Changes in Assets and Liabilities – Agency Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Balance September 1, 2011	Additions	Deductions	Balance August 31, 2012
Texas Public Finance Authority Bond Escrow Account				
ASSETS				
Cash and Cash Equivalents	\$ 149	\$	\$ 1	\$ 148
Investments	359,704		144,142	215,562
Interest and Dividends Receivable	1,391		155	1,236
Total Assets	<u>\$ 361,244</u>	<u>\$ 0</u>	<u>\$ 144,298</u>	<u>\$ 216,946</u>
LIABILITIES				
Funds Held for Others	\$ 361,244	\$	\$ 144,298	\$ 216,946
Total Liabilities	<u>\$ 361,244</u>	<u>\$ 0</u>	<u>\$ 144,298</u>	<u>\$ 216,946</u>
Life, Health, Accident and Casualty Insurance Companies Trust Account				
ASSETS				
Cash and Cash Equivalents	\$ 278	\$ 317	\$ 278	\$ 317
Other Assets	1,092,430	394,525	390,971	1,095,984
Total Assets	<u>\$ 1,092,708</u>	<u>\$ 394,842</u>	<u>\$ 391,249</u>	<u>\$ 1,096,301</u>
LIABILITIES				
Funds Held for Others	\$ 1,092,708	\$ 394,842	\$ 391,249	\$ 1,096,301
Total Liabilities	<u>\$ 1,092,708</u>	<u>\$ 394,842</u>	<u>\$ 391,249</u>	<u>\$ 1,096,301</u>
Texas Workers' Compensation Self-Insurance Fund				
ASSETS				
Cash and Cash Equivalents	\$ 10,020	\$ 13,069	\$ 14,109	\$ 8,980
Other Assets	563,466	535,066	563,466	535,066
Total Assets	<u>\$ 573,486</u>	<u>\$ 548,135</u>	<u>\$ 577,575</u>	<u>\$ 544,046</u>
LIABILITIES				
Accounts Payable	\$	\$ 2,041	\$ 2,041	\$
Funds Held for Others	573,486	3,049	32,489	544,046
Total Liabilities	<u>\$ 573,486</u>	<u>\$ 5,090</u>	<u>\$ 34,530</u>	<u>\$ 544,046</u>
City, County, MTA and SPD Sales Tax Trust Account				
ASSETS				
Cash and Cash Equivalents	\$ 726,981	\$ 7,829,206	\$ 7,764,865	\$ 791,322
Total Assets	<u>\$ 726,981</u>	<u>\$ 7,829,206</u>	<u>\$ 7,764,865</u>	<u>\$ 791,322</u>
LIABILITIES				
Payables:				
Accounts	\$	\$ 6,699,380	\$ 6,699,380	\$
Other Intergovernmental	726,981	791,322	726,981	791,322
Funds Held for Others		8,556,187	8,556,187	
Total Liabilities	<u>\$ 726,981</u>	<u>\$ 16,046,889</u>	<u>\$ 15,982,548</u>	<u>\$ 791,322</u>

Concluded on the following page

STATE OF TEXAS

Combining Statement of Changes in Assets and Liabilities – Agency Funds (concluded)

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

	Balance September 1, 2011	Additions	Deductions	Balance August 31, 2012
Other Agency Funds				
ASSETS				
Cash and Cash Equivalents	\$ 617,117	\$ 10,307,553	\$ 10,655,103	\$ 269,567
Investments	225,179	250,396	206,051	269,524
Receivables:				
Accounts	7,233	9,305	8,559	7,979
Other Intergovernmental	918	1,440		2,358
Due From Other Funds	738	1,766	1,604	900
Interfund Receivable		122,061	122,061	
Other Assets	76,564	49,183	14,644	111,103
Total Assets	<u>\$ 927,749</u>	<u>\$ 10,741,704</u>	<u>\$ 11,008,022</u>	<u>\$ 661,431</u>
LIABILITIES				
Payables:				
Accounts	\$ 229	\$ 757,924	\$ 757,948	\$ 205
Due To Other Funds	2,988	920,598	896,357	27,229
Interfund Payable		121,994	121,994	
Funds Held for Others	924,523	10,420,048	10,710,585	633,986
Other Liabilities	9	19	17	11
Total Liabilities	<u>\$ 927,749</u>	<u>\$ 12,220,583</u>	<u>\$ 12,486,901</u>	<u>\$ 661,431</u>
Totals – All Agency Funds				
ASSETS				
Cash and Cash Equivalents	\$ 1,354,545	\$ 18,150,145	\$ 18,434,356	\$ 1,070,334
Investments	584,883	250,396	350,193	485,086
Receivables:				
Interest and Dividends	1,391		155	1,236
Accounts	7,233	9,305	8,559	7,979
Other Intergovernmental	918	1,440		2,358
Due From Other Funds	738	1,766	1,604	900
Interfund Receivable		122,061	122,061	
Other Assets	1,732,460	978,774	969,081	1,742,153
Total Assets	<u>\$ 3,682,168</u>	<u>\$ 19,513,887</u>	<u>\$ 19,886,009</u>	<u>\$ 3,310,046</u>
LIABILITIES				
Payables:				
Accounts	\$ 229	\$ 7,459,345	\$ 7,459,369	\$ 205
Other Intergovernmental	726,981	791,322	726,981	791,322
Due To Other Funds	2,988	920,598	896,357	27,229
Interfund Payable		121,994	121,994	
Funds Held for Others	2,951,961	19,374,126	19,834,808	2,491,279
Other Liabilities	9	19	17	11
Total Liabilities	<u>\$ 3,682,168</u>	<u>\$ 28,667,404</u>	<u>\$ 29,039,526</u>	<u>\$ 3,310,046</u>



Section Two
(concluded)

Discretely Presented Component Units

Discretely Presented Component Units

A statement of net position and a statement of activities were prepared to report the breakdown of the following discretely presented component units:

Texas Guaranteed Student Loan Corporation
Teacher Retirement System of Texas
State Bar of Texas
Texas State Affordable Housing Corporation
OneStar National Service Commission
Texas Low-Level Radioactive Waste Disposal Compact Commission
Texas Windstorm Insurance Association
Surplus Lines Stamping Office of Texas
Texas Health Reinsurance System
Texas Health Insurance Risk Pool
Texas Boll Weevil Eradication Foundation Inc.
Texas Agricultural Finance Authority
Texas Water Resources Finance Authority
Texas On-Site Wastewater Treatment Research Council
Texas Appraiser Licensing and Certification Board
Texas Economic Development Corporation
Texas Small Business Industrial Development Corporation
Texas Disaster Relief Fund
Texas Health Services Authority
Beacon State Fund
State Agency Council
Film Texas Fund
Casa Verde Research Center, Sociedad Anonimo
Representacion de TAMU en la Republica Mexicana, A.C. (Mexico Center)
National Biosecurity Foundation
Texas 4-H Inc.

STATE OF TEXAS

Combining Statement of Net Position – Component Units

August 31, 2012 (Amounts in Thousands)*

	Texas Guaranteed Student Loan Corporation	Teacher Retirement System of Texas	State Bar of Texas	Texas State Affordable Housing Corporation	OneStar National Service Commission	Texas Low-Level Radioactive Waste Disposal Compact Commission	Texas Windstorm Insurance Association
ASSETS							
Current Assets:							
Cash and Cash Equivalents	\$ 52,049	\$ 174,147	\$ 18,864	\$ 4,408	\$ 793	\$	\$ 374,629
Short-Term Investments	694,744		19,822	2,005			100,064
Restricted:							
Cash and Cash Equivalents				28,908			
Loans and Contracts				1,012			
Receivables:							
Federal	32,740				80		
Other Intergovernmental							
Accounts		87,442	1,711	265			21,103
Interest and Dividends	7,923	80		426			
Other					1		
Inventories			681				
Prepaid Items			753	31			34,098
Loans and Contracts							
Other Current Assets	1,778				27		
Total Current Assets	<u>789,234</u>	<u>261,669</u>	<u>41,831</u>	<u>37,055</u>	<u>901</u>	<u>0</u>	<u>529,894</u>
Noncurrent Assets:							
Restricted:							
Investments				249,753			
Loans and Contracts				9,339			
Loans and Contracts							
Investments				1,051			
Other Receivables							
Other Noncurrent Assets				9,599	3		521
Capital Assets:							
Non-Depreciable or Non-Amortizable	5,036		330	232			
Depreciable or Amortizable, Net	37,881		9,952	1,374			99
Total Noncurrent Assets	<u>42,917</u>	<u>0</u>	<u>10,282</u>	<u>271,348</u>	<u>3</u>	<u>0</u>	<u>620</u>
Total Assets	<u>832,151</u>	<u>261,669</u>	<u>52,113</u>	<u>308,403</u>	<u>904</u>	<u>0</u>	<u>530,514</u>

Continued on the following page

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2012 (Amounts in Thousands)*

	Texas Guaranteed Student Loan Corporation	Teacher Retirement System of Texas	State Bar of Texas	Texas State Affordable Housing Corporation	OneStar National Service Commission	Texas Low-Level Radioactive Waste Disposal Compact Commission	Texas Windstorm Insurance Association
LIABILITIES							
Current Liabilities:							
Payables:							
Accounts	\$ 6,421	\$ 215,377	\$ 2,225	\$ 188	\$ 70	\$ 27	\$ 102,783
Payroll		122					
Federal	30,046						
Interest				2,812			
Due To Primary Government						89	
Unearned Revenue			10,053		723		159,588
Capital Lease Obligations			54				
Employees' Compensable Leave	2,038	85	509				
Notes and Loans Payable				72			
Revenue Bonds Payable				25,053			
Funds Held for Others			267				
Other Current Liabilities				332			212,264
Total Current Liabilities	<u>38,505</u>	<u>215,584</u>	<u>13,108</u>	<u>28,457</u>	<u>793</u>	<u>116</u>	<u>474,635</u>
Noncurrent Liabilities:							
Capital Lease Obligations			56				
Employees' Compensable Leave	1,167	56	913				
Notes and Loans Payable				4,543			
Revenue Bonds Payable				233,866			
Other Noncurrent Liabilities	241,310			4,702			
Total Noncurrent Liabilities	<u>242,477</u>	<u>56</u>	<u>969</u>	<u>243,111</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities	<u>280,982</u>	<u>215,640</u>	<u>14,077</u>	<u>271,568</u>	<u>793</u>	<u>116</u>	<u>474,635</u>
NET POSITION							
Invested in Capital Assets, Net of Related Debt	42,917		10,171	864			4,615
Restricted for:							
Education	140,847						
Other		46,029		27,642	163		
Unrestricted	<u>367,405</u>		<u>27,865</u>	<u>8,329</u>	<u>(52)</u>	<u>(116)</u>	<u>51,264</u>
Total Net Position	<u>\$ 551,169</u>	<u>\$ 46,029</u>	<u>\$ 38,036</u>	<u>\$ 36,835</u>	<u>\$ 111</u>	<u>\$ (116)</u>	<u>\$ 55,879</u>

Continued on the following page

* Amounts reported as of Aug. 31, 2012, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2012 (Amounts in Thousands)*

	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas Boll Weevil Eradication Foundation Inc.	Texas Agricultural Finance Authority	Texas Water Resources Finance Authority	Texas On-Site Wastewater Treatment Research Council**
ASSETS							
Current Assets:							
Cash and Cash Equivalents	\$ 913	\$ 570	\$ 35,173	\$ 85,397	\$ 15,627	\$ 1,548	\$
Short-Term Investments	4,753		23,000			32,216	
Restricted:							
Cash and Cash Equivalents							
Loans and Contracts							
Receivables:							
Federal				3,600			
Other Intergovernmental				2,754			
Accounts	204	1	62,128	2,099			
Interest and Dividends					33	134	
Other	9			6			
Inventories				3,171			
Prepaid Items	83			147	2		
Loans and Contracts					191	639	
Other Current Assets					11		
Total Current Assets	<u>5,962</u>	<u>571</u>	<u>120,301</u>	<u>97,174</u>	<u>15,864</u>	<u>34,537</u>	<u>0</u>
Noncurrent Assets:							
Restricted:							
Investments							
Loans and Contracts							
Loans and Contracts					3,478	5,333	
Investments						2,182	
Other Receivables				1,653			
Other Noncurrent Assets	43		9				
Capital Assets:							
Non-Depreciable or Non-Amortizable							
Depreciable or Amortizable, Net	3,140		11	2,928			
Total Noncurrent Assets	<u>3,183</u>	<u>0</u>	<u>20</u>	<u>4,581</u>	<u>3,478</u>	<u>7,515</u>	<u>0</u>
Total Assets	<u>9,145</u>	<u>571</u>	<u>120,321</u>	<u>101,755</u>	<u>19,342</u>	<u>42,052</u>	<u>0</u>

Continued on the following page

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2012 (Amounts in Thousands)*

	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas Boll Weevil Eradication Foundation Inc.	Texas Agricultural Finance Authority	Texas Water Resources Finance Authority	Texas On-Site Wastewater Treatment Research Council**
LIABILITIES							
Current Liabilities:							
Payables:							
Accounts	\$ 12	\$ 21	\$ 1,180	\$ 514	\$ 48	\$	\$
Payroll	37			477	14		
Federal							
Interest				244			
Due To Primary Government							
Unearned Revenue			78,212				
Capital Lease Obligations							
Employees' Compensable Leave	61			935	10		
Notes and Loans Payable				500	8,998		
Revenue Bonds Payable							
Funds Held for Others							
Other Current Liabilities	78	550	40,929				
Total Current Liabilities	<u>188</u>	<u>571</u>	<u>120,321</u>	<u>2,670</u>	<u>9,070</u>	<u>0</u>	<u>0</u>
Noncurrent Liabilities:							
Capital Lease Obligations							
Employees' Compensable Leave					15		
Notes and Loans Payable				39,969			
Revenue Bonds Payable							
Other Noncurrent Liabilities							
Total Noncurrent Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>39,969</u>	<u>15</u>	<u>0</u>	<u>0</u>
Total Liabilities	<u>188</u>	<u>571</u>	<u>120,321</u>	<u>42,639</u>	<u>9,085</u>	<u>0</u>	<u>0</u>
NET POSITION							
Invested in Capital Assets, Net of Related Debt	3,140			1,423			
Restricted for:							
Education							
Other							
Unrestricted	<u>5,817</u>			<u>57,693</u>	<u>10,257</u>	<u>42,052</u>	
Total Net Position	<u>\$ 8,957</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 59,116</u>	<u>\$ 10,257</u>	<u>\$ 42,052</u>	<u>\$ 0</u>

Continued on the following page

* Amounts reported as of Aug. 31, 2012, unless otherwise indicated in Note 19.

** This fund has activity on the combining statement of activities – component units.

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2012 (Amounts in Thousands)*

	Texas Appraiser Licensing and Certification Board	Texas Economic Development Corporation	Texas Small Business Industrial Development Corporation	Texas Disaster Relief Fund	Texas Health Services Authority	Beacon State Fund	State Agency Council
ASSETS							
Current Assets:							
Cash and Cash Equivalents	\$ 562	\$ 1,963	\$ 8,262	\$ 686	\$ 1,090	\$ 179	\$ 9
Short-Term Investments							20
Restricted:							
Cash and Cash Equivalents			2,000				
Loans and Contracts							
Receivables:							
Federal							
Other Intergovernmental					7		
Accounts		10					
Interest and Dividends			23				
Other							
Inventories	3						
Prepaid Items		207	5				1
Loans and Contracts			776				
Other Current Assets					8		
Total Current Assets	<u>565</u>	<u>2,180</u>	<u>11,066</u>	<u>686</u>	<u>1,105</u>	<u>179</u>	<u>30</u>
Noncurrent Assets:							
Restricted:							
Investments							
Loans and Contracts							
Loans and Contracts			9,876				
Investments							
Other Receivables							
Other Noncurrent Assets							
Capital Assets:							
Non-Depreciable or Non-Amortizable							
Depreciable or Amortizable, Net	100	5			19		
Total Noncurrent Assets	<u>100</u>	<u>5</u>	<u>9,876</u>	<u>0</u>	<u>19</u>	<u>0</u>	<u>0</u>
Total Assets	<u>665</u>	<u>2,185</u>	<u>20,942</u>	<u>686</u>	<u>1,124</u>	<u>179</u>	<u>30</u>

Continued on the following page

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2012 (Amounts in Thousands)*

	Texas Appraiser Licensing and Certification Board	Texas Economic Development Corporation	Texas Small Business Industrial Development Corporation	Texas Disaster Relief Fund	Texas Health Services Authority	Beacon State Fund	State Agency Council
LIABILITIES							
Current Liabilities:							
Payables:							
Accounts	\$ 41	\$ 86	\$ 77	\$	\$	\$	\$
Payroll	93						
Federal							
Interest			3				
Due To Primary Government							
Unearned Revenue					1,105		5
Capital Lease Obligations							
Employees' Compensable Leave	63						
Notes and Loans Payable							
Revenue Bonds Payable							
Funds Held for Others							
Other Current Liabilities							
Total Current Liabilities	<u>197</u>	<u>86</u>	<u>80</u>	<u>0</u>	<u>1,105</u>	<u>0</u>	<u>5</u>
Noncurrent Liabilities:							
Capital Lease Obligations							
Employees' Compensable Leave	33						
Notes and Loans Payable							
Revenue Bonds Payable			20,000				
Other Noncurrent Liabilities							
Total Noncurrent Liabilities	<u>33</u>	<u>0</u>	<u>20,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities	<u>230</u>	<u>86</u>	<u>20,080</u>	<u>0</u>	<u>1,105</u>	<u>0</u>	<u>5</u>
NET POSITION							
Invested in Capital Assets, Net of Related Debt	100						
Restricted for:							
Education							
Other	335						
Unrestricted		2,099	862	686	19	179	25
Total Net Position	<u>\$ 435</u>	<u>\$ 2,099</u>	<u>\$ 862</u>	<u>\$ 686</u>	<u>\$ 19</u>	<u>\$ 179</u>	<u>\$ 25</u>

Continued on the following page

* Amounts reported as of Aug. 31, 2012, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2012 (Amounts in Thousands)*

	Film Texas Fund	Casa Verde Research Center	Mexico Center	National Biosecurity Foundation**	Texas 4-H Inc.	Totals
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 4	\$ 2	\$ 38	\$	\$ 16	\$ 776,929
Short-Term Investments						876,624
Restricted:						
Cash and Cash Equivalents						30,908
Loans and Contracts						1,012
Receivables:						
Federal						36,420
Other Intergovernmental						2,761
Accounts						174,963
Interest and Dividends						8,619
Other		13	34			63
Inventories						3,855
Prepaid Items						35,327
Loans and Contracts						1,606
Other Current Assets		1				1,825
Total Current Assets	<u>4</u>	<u>16</u>	<u>72</u>	<u>0</u>	<u>16</u>	<u>1,950,912</u>
Noncurrent Assets:						
Restricted:						
Investments						249,753
Loans and Contracts						9,339
Loans and Contracts						18,687
Investments						3,233
Other Receivables						1,653
Other Noncurrent Assets		36				10,211
Capital Assets:						
Non-Depreciable or Non-Amortizable		4				5,602
Depreciable or Amortizable, Net		649	94			56,252
Total Noncurrent Assets	<u>0</u>	<u>689</u>	<u>94</u>	<u>0</u>	<u>0</u>	<u>354,730</u>
Total Assets	<u>4</u>	<u>705</u>	<u>166</u>	<u>0</u>	<u>16</u>	<u>2,305,642</u>

Concluded on the following page

STATE OF TEXAS

Combining Statement of Net Position – Component Units (concluded)

August 31, 2012 (Amounts in Thousands)*

	Film Texas Fund	Casa Verde Research Center	Mexico Center	National Biosecurity Foundation**	Texas 4-H Inc.	Totals
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	\$	\$	\$	\$	\$	\$ 329,070
Payroll		16				759
Federal						30,046
Interest						3,059
Due To Primary Government						89
Unearned Revenue						249,686
Capital Lease Obligations						54
Employees' Compensable Leave						3,701
Notes and Loans Payable						9,570
Revenue Bonds Payable						25,053
Funds Held for Others						267
Other Current Liabilities		1	6			254,160
Total Current Liabilities	<u>0</u>	<u>17</u>	<u>6</u>	<u>0</u>	<u>0</u>	<u>905,514</u>
Noncurrent Liabilities:						
Capital Lease Obligations						56
Employees' Compensable Leave						2,184
Notes and Loans Payable						44,512
Revenue Bonds Payable						253,866
Other Noncurrent Liabilities		603	50			246,665
Total Noncurrent Liabilities	<u>0</u>	<u>603</u>	<u>50</u>	<u>0</u>	<u>0</u>	<u>547,283</u>
Total Liabilities	<u>0</u>	<u>620</u>	<u>56</u>	<u>0</u>	<u>0</u>	<u>1,452,797</u>
NET POSITION						
Invested in Capital Assets, Net of Related Debt						63,230
Restricted for:						
Education						140,847
Other						74,169
Unrestricted	4	85	110		16	574,599
Total Net Position	<u>\$ 4</u>	<u>\$ 85</u>	<u>\$ 110</u>	<u>\$ 0</u>	<u>\$ 16</u>	<u>\$ 852,845</u>

* Amounts reported as of Aug. 31, 2012, unless otherwise indicated in Note 19.

** This fund has activity on the combining statement of activities – component units.

STATE OF TEXAS

Combining Statement of Activities – Component Units

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)*

	Texas Guaranteed Student Loan Corporation	Teacher Retirement System of Texas	State Bar of Texas	Texas State Affordable Housing Corporation	OneStar National Service Commission	Texas Low-Level Radioactive Waste Disposal Compact Commission
EXPENSES						
Salaries and Wages	\$ 42,445	\$ 1,262	\$ 16,755	\$ 1,503	\$ 1,116	\$
Payroll Related Costs	13,317	333	4,544		285	
Professional Fees and Services	12,181	547	2,953	307	559	49
Travel	1,599	6	7,143	63	123	28
Materials and Supplies	1,318	8	1,876		38	2
Communications and Utilities	1,054	2	1,285		34	1
Repairs and Maintenance	3,500	2	896			
Rentals and Leases	589	61	1,438	39	230	3
Printing and Reproduction	335		2,092		4	1
Claims and Judgments			576			
Bad Debt Expense						
Cost of Goods Sold			577			
Depreciation and Amortization	4,879		966	667		
Other Financing Fees	42					
Public Assistance Payments	21,932				11,825	
Employee/Participant Benefit Payments		1,891,956				
Direct Interest Expense						
Interest Expense – Other			6	10,762		
Other Expenses	62,871	6	3,452	2,181	131	32
Total Expenses	<u>166,062</u>	<u>1,894,183</u>	<u>44,559</u>	<u>15,522</u>	<u>14,345</u>	<u>116</u>
PROGRAM REVENUES						
Charges for Services	1,026	1,750,218	39,870	2,353		
Operating Grants and Contributions	253,396	105	6,153	11,981	14,355	
Total Program Revenues	<u>254,422</u>	<u>1,750,323</u>	<u>46,023</u>	<u>14,334</u>	<u>14,355</u>	<u>0</u>
Net Program Revenues (Expenses)	<u>88,360</u>	<u>(143,860)</u>	<u>1,464</u>	<u>(1,188)</u>	<u>10</u>	<u>(116)</u>
GENERAL REVENUES						
Unrestricted Investment Earnings	(8,688)	1,698				
Other General Revenues				684		
Gain on Sale of Capital Assets			5			
Total General Revenues	<u>(8,688)</u>	<u>1,698</u>	<u>5</u>	<u>684</u>	<u>0</u>	<u>0</u>
Change in Net Position	<u>79,672</u>	<u>(142,162)</u>	<u>1,469</u>	<u>(504)</u>	<u>10</u>	<u>(116)</u>
Net Position, September 1, 2011	471,497	188,191	36,367	37,339	101	
Restatements			200			
Net Position, September 1, 2011, as Restated	<u>471,497</u>	<u>188,191</u>	<u>36,567</u>	<u>37,339</u>	<u>101</u>	<u>0</u>
Net Position, August 31, 2012	<u>\$ 551,169</u>	<u>\$ 46,029</u>	<u>\$ 38,036</u>	<u>\$ 36,835</u>	<u>\$ 111</u>	<u>\$ (116)</u>

* Amounts reported for the fiscal year ended Aug. 31, 2012, unless otherwise indicated in Note 19.

Texas Windstorm Insurance Association	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas Boll Weevil Eradication Foundation Inc.	Texas Agricultural Finance Authority	Texas Water Resources Finance Authority
\$ 14,834 2,598	\$ 1,204 391	\$	\$ 364	\$ 16,542	\$ 438 42	\$ 2
	433		12,551	964	32	
	4		3	324	13	
	33		44	7,540	3	
	37			525		
	44			953		
957	253		75	732	1	
	3					
				304	(22)	
675	237		5	1,401	(5)	
					221	4,564
					41	
				1,273		
284,775	169	48	305,567	3,988	86	12
303,839	2,808	48	318,609	34,546	850	4,578
321,954	1,953	47	309,352	34,302	963	
291	35	1	9,257	14,932		1,928
322,245	1,988	48	318,609	49,234	963	1,928
18,406	(820)	0	0	14,688	113	(2,650)
				184	191	
				4		
				730		
0	0	0	0	918	191	0
18,406	(820)	0	0	15,606	304	(2,650)
41,552	9,777			43,510	9,953	44,702
(4,079)						
37,473	9,777	0	0	43,510	9,953	44,702
\$ 55,879	\$ 8,957	\$ 0	\$ 0	\$ 59,116	\$ 10,257	\$ 42,052

Concluded on the following page

STATE OF TEXAS

Combining Statement of Activities – Component Units (concluded)

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)*

	Texas On-Site Wastewater Treatment Research Council	Texas Appraiser Licensing and Certification Board	Texas Economic Development Corporation	Texas Small Business Industrial Development Corporation	Texas Disaster Relief Fund	Texas Health Services Authority
EXPENSES						
Salaries and Wages	\$	\$ 843	\$	\$	\$	\$ 273
Payroll Related Costs		215				38
Professional Fees and Services		67	475		1	194
Travel		24	262			13
Materials and Supplies		32	220			8
Communication and Utilities		7	13		1	10
Repairs and Maintenance		(4)				
Rentals and Leases		109	73			20
Printing and Reproduction		1	17			
Claims and Judgments						
Bad Debt Expense						
Cost of Goods Sold						
Depreciation and Amortization		13	6			3
Other Financing Fees						
Public Assistance Payments					54	
Employee/Participant Benefit Payments						
Direct Interest Expense				67		
Interest Expense – Other						
Other Expenses	210	928	199	753		8
Total Expenses	210	2,235	1,265	820	56	567
PROGRAM REVENUES						
Charges for Services		1,810	61			583
Operating Grants and Contributions			1,246	461	24	
Total Program Revenues	0	1,810	1,307	461	24	583
Net Program Revenues (Expenses)	(210)	(425)	42	(359)	(32)	16
GENERAL REVENUES						
Unrestricted Investment Earnings			1	3		
Other General Revenues		726				
Gain on Sale of Capital Assets						
Total General Revenues	0	726	1	3	0	0
Change in Net Position	(210)	301	43	(356)	(32)	16
Net Position, September 1, 2011	210	134	2,004	1,218	718	1,164
Restatements			52			(1,161)
Net Position, September 1, 2011, as Restated	210	134	2,056	1,218	718	3
Net Position, August 31, 2012	\$ 0	\$ 435	\$ 2,099	\$ 862	\$ 686	\$ 19

* Amounts reported for the fiscal year ended Aug. 31, 2012, unless otherwise indicated in Note 19.

Beacon State Fund	State Agency Council	Film Texas Fund	Casa Verde Research Center	Mexico Center	National Biosecurity Foundation	Texas 4-H Inc.	Totals
\$	\$	\$	\$ 173	\$	\$	\$	\$ 97,754
			50				21,813
1			21		33	1	31,369
1		1	56		2		9,665
26	2		52				11,202
1			20				2,990
			13				5,404
1			7				4,588
6							2,459
							576
							282
				127			704
			46	27			8,925
			9	14	3		63
11	1						38,608
							1,891,956
							108
							12,041
6	2		7	199		63	665,693
53	5	1	454	367	38	64	2,806,200
118				130		80	2,464,820
29	1		451	171			314,817
147	1	0	451	301	0	80	2,779,637
94	(4)	(1)	(3)	(66)	(38)	16	(26,563)
							(6,611)
							1,414
							735
0	0	0	0	0	0	0	(4,462)
94	(4)	(1)	(3)	(66)	(38)	16	(31,025)
			(327)	162	38		888,310
85	29	5	415	14			(4,440)
85	29	5	88	176	38	0	883,870
\$ 179	\$ 25	\$ 4	\$ 85	\$ 110	\$ 0	\$ 16	\$ 852,845



Section Three

Statistical Section

State of Texas Statistical Section

This section presents detailed information as a context for understanding what the information in the financial statements, note disclosures, required supplementary information and other supplementary information says about the state's overall financial health.

Contents	Pages
Financial Trends Information	249 – 255
These schedules contain trend information intended to help the reader understand how the state's financial position has changed over time.	
Revenue Capacity Information	256 – 258
These schedules contain information intended to help the reader assess the state's most significant revenue source – state tax collections.	
Debt Capacity Information	259 – 263
These schedules present information intended to assist users in understanding and assessing the state's current levels of outstanding debt and the ability to issue additional debt.	
Demographic and Economic Information	264 – 266
These schedules provide demographic and economic indicators intended to help the reader understand the socio-economic environment within which the state's financial activities take place.	
Operating Information	267 – 269
These schedules provide contextual information about the state's operations and resources intended to assist readers in using financial statement information to understand and assess the state's economic condition.	

Sources: Unless otherwise noted, the information in these schedules is derived from the Texas Comprehensive Annual Financial Report databases for the relevant years.

STATE OF TEXAS
Statistical Section – Financial Trends Information
Net Position by Component
Last Ten Fiscal Years

(Amounts in Millions)

	2003	2004	2005	2006	2007
GOVERNMENTAL ACTIVITIES					
Invested in Capital Assets, Net of Related Debt	\$ 49,254	\$ 51,407	\$ 53,815	\$ 55,473	\$ 56,438
Restricted	20,846	22,213	24,110	25,993	29,347
Unrestricted	(28)	541	3,753	8,696	12,565
Total Governmental Activities Net Position	<u>70,072</u>	<u>74,161</u>	<u>81,678</u>	<u>90,162</u>	<u>98,350</u>
BUSINESS-TYPE ACTIVITIES					
Invested in Capital Assets, Net of Related Debt	5,737	6,464	6,253	6,871	7,343
Restricted	15,168	17,628	20,581	22,812	25,815
Unrestricted	6,167	5,805	7,076	8,056	9,741
Total Business-Type Activities Net Position	<u>27,072</u>	<u>29,897</u>	<u>33,910</u>	<u>37,739</u>	<u>42,899</u>
PRIMARY GOVERNMENT					
Invested in Capital Assets, Net of Related Debt	54,991	57,871	60,068	62,344	63,781
Restricted	36,014	39,841	44,691	48,805	55,162
Unrestricted	6,139	6,346	10,829	16,752	22,306
Total Primary Government Net Position	<u>\$ 97,144</u>	<u>\$ 104,058</u>	<u>\$ 115,588</u>	<u>\$ 127,901</u>	<u>\$ 141,249</u>
	2008	2009	2010	2011	2012
GOVERNMENTAL ACTIVITIES					
Invested in Capital Assets, Net of Related Debt	\$ 58,208	\$ 59,720	\$ 60,744	\$ 61,917	\$ 63,458
Restricted	31,358	32,663	26,136	32,014	33,817
Unrestricted	11,105	3,479	8,025	3,322	4,497
Total Governmental Activities Net Position	<u>100,671</u>	<u>95,862</u>	<u>94,905</u>	<u>97,253</u>	<u>101,772</u>
BUSINESS-TYPE ACTIVITIES					
Invested in Capital Assets, Net of Related Debt	7,385	7,655	7,933	9,243	9,713
Restricted	24,882	18,744	22,209	24,375	27,539
Unrestricted	9,885	8,619	7,230	8,516	9,553
Total Business-Type Activities Net Position	<u>42,152</u>	<u>35,018</u>	<u>37,372</u>	<u>42,134</u>	<u>46,805</u>
PRIMARY GOVERNMENT					
Invested in Capital Assets, Net of Related Debt	65,593	67,375	68,677	71,160	73,171
Restricted	56,240	51,407	48,345	56,389	61,356
Unrestricted	20,990	12,098	15,255	11,838	14,050
Total Primary Government Net Position	<u>\$ 142,823</u>	<u>\$ 130,880</u>	<u>\$ 132,277</u>	<u>\$ 139,387</u>	<u>\$ 148,577</u>

Source: 2003-12 state of Texas financial statements

STATE OF TEXAS
Statistical Section – Financial Trends Information
Changes in Net Position
Last Ten Fiscal Years

(Amounts in Thousands)

	2003	2004	2005	2006	2007
GOVERNMENTAL ACTIVITIES:					
Expenses					
General Government	\$ 2,026,241	\$ 2,234,369	\$ 2,206,793	\$ 2,681,117	\$ 2,555,309
Education	15,935,961	16,250,938	16,293,851	18,025,550	21,313,526
Employee Benefits	22,644	60,536	50,544	56,718	61,171
Teacher Retirement State Contributions	2,435,727	2,269,667	2,083,530	1,932,325	2,017,000
Health and Human Services	24,742,714	25,060,588	27,302,426	28,808,315	30,886,484
Public Safety and Corrections	4,207,856	4,030,120	4,086,450	5,084,923	5,035,761
Transportation	3,562,159	3,476,342	3,766,301	4,452,154	4,252,129
Natural Resources and Recreation	835,139	864,508	1,070,481	961,178	1,217,201
Regulatory Services	324,567	375,951	349,420	282,067	314,266
Indirect Interest on Long-Term Debt	366,847	338,693	417,854	54,121	229,354
Total Expenses	<u>54,459,855</u>	<u>54,961,712</u>	<u>57,627,650</u>	<u>62,338,468</u>	<u>67,882,201</u>
Program Revenues					
Charges for Services:					
General Government	1,378,735	1,695,987	802,588	1,199,924	1,141,278
Education	485,676	520,621	594,702	626,224	584,971
Employee Benefits	112	171	97	120	116
Teacher Retirement State Contributions			10	93,694	26,661
Health and Human Services	821,773	838,377	1,124,402	1,177,825	2,059,789
Public Safety and Corrections	148,420	164,959	463,097	441,803	823,602
Transportation	974,627	1,016,809	1,342,073	1,373,339	1,530,669
Natural Resources and Recreation	437,834	473,608	716,981	570,872	714,687
Regulatory Services	92,875	212,919	534,469	596,705	604,199
Operating Grants and Contributions	22,801,211	24,501,850	26,667,982	28,979,226	29,995,409
Capital Grants and Contributions	2,570,634	2,773,764	3,253,051	2,803,006	1,823,686
Total Program Revenues	<u>29,711,897</u>	<u>32,199,065</u>	<u>35,499,452</u>	<u>37,862,738</u>	<u>39,305,067</u>
Total Governmental Activities					
Net Program Expense	<u>(24,747,958)</u>	<u>(22,762,647)</u>	<u>(22,128,198)</u>	<u>(24,475,730)</u>	<u>(28,577,134)</u>
General Revenues					
Taxes:					
Sales and Use	14,349,758	15,564,085	16,260,689	18,475,176	20,230,164
Motor Vehicle and Manufactured Housing	2,795,211	2,665,258	2,897,031	3,046,856	3,338,498
Motor Fuels	2,790,936	2,931,753	2,915,680	3,053,476	3,149,043
Franchise	1,532,820	1,657,141	2,203,578	2,632,780	3,273,050
Oil and Natural Gas Production	1,531,275	1,918,989	2,409,276	3,441,638	2,692,032
Insurance Occupation	1,179,553	1,192,829	1,213,627	1,238,846	1,368,340
Cigarette and Tobacco	583,159	540,404	596,569	547,000	1,325,712
Other	1,405,325	1,426,026	1,435,701	1,558,073	1,694,750
Unrestricted Investment Earnings	239,198	211,239	327,516	760,207	941,938
Federal Jobs and Growth Tax Relief Funds	354,535	354,535			
Settlement of Claims	563,196	523,518	885,975	583,787	538,836
Gain on Sale of Capital Assets	6,359	31,189	8,461	2,762	3,942
Other General Revenues	787,866	723,157	822,652	1,071,679	1,627,330
Capital Contributions	600	944	107	1,449	309
Transfers	<u>(3,069,447)</u>	<u>(2,867,137)</u>	<u>(2,966,197)</u>	<u>(3,513,639)</u>	<u>(3,383,910)</u>
Total General Revenues,					
Contributions and Transfers	<u>25,050,344</u>	<u>26,873,930</u>	<u>29,010,665</u>	<u>32,900,090</u>	<u>36,800,034</u>
Change in Net Position – Governmental Activities	<u>302,386</u>	<u>4,111,283</u>	<u>6,882,467</u>	<u>8,424,360</u>	<u>8,222,900</u>

Source: 2003-12 state of Texas financial statements

2008	2009	2010	2011	2012
\$ 2,659,822	\$ 3,052,177	\$ 3,451,868	\$ 4,037,805	\$ 3,116,737
24,986,076	24,952,375	27,344,876	28,643,283	25,724,127
86,195	220,272	252,457	324,477	423,492
1,761,759	1,667,325	2,200,408	2,262,638	2,390,178
32,426,046	38,124,180	41,487,191	44,875,285	44,737,457
5,020,897	6,026,868	6,231,847	5,539,155	5,294,730
4,478,109	4,025,226	4,146,987	4,377,794	4,484,662
1,451,450	1,673,915	1,559,708	1,474,675	1,634,659
398,885	445,938	447,557	408,115	410,724
578,059	525,648	755,314	797,030	715,148
<u>73,847,298</u>	<u>80,713,924</u>	<u>87,878,213</u>	<u>92,740,257</u>	<u>88,931,914</u>
1,171,997	1,010,388	984,639	1,019,521	1,036,382
821,291	474,249	463,719	632,584	480,475
107	109	135	100	134
	33,624			
1,832,315	1,825,395	1,782,704	2,101,440	1,910,599
331,101	354,117	336,134	330,198	342,782
1,785,835	1,920,123	1,891,247	1,999,695	2,224,635
661,657	574,032	605,751	587,423	699,872
635,089	646,959	687,746	666,158	710,209
25,900,072	32,410,929	43,148,227	47,220,463	42,796,231
2,585,507	2,619,631	2,453,183	2,538,949	47,578
<u>35,724,971</u>	<u>41,869,556</u>	<u>52,353,485</u>	<u>57,096,531</u>	<u>50,248,897</u>
<u>(38,122,327)</u>	<u>(38,844,368)</u>	<u>(35,524,728)</u>	<u>(35,643,726)</u>	<u>(38,683,017)</u>
21,640,855	21,026,034	19,558,426	21,751,249	24,349,600
3,384,597	2,568,599	2,624,725	3,001,387	3,580,663
3,000,148	3,155,941	3,060,246	3,108,153	3,195,332
4,712,183	3,303,170	3,809,109	3,998,073	4,574,184
4,036,033	1,335,296	2,157,334	3,069,384	3,727,498
1,446,828	1,295,330	1,309,620	1,379,621	1,528,111
1,454,187	1,564,061	1,394,122	1,551,420	1,428,413
1,744,400	1,680,362	1,676,452	1,802,300	1,954,752
1,041,840	178,470	575,642	334,621	645,813
555,476	555,626	925,676	584,305	620,898
			99	7,163
1,392,565	1,769,051	2,017,783	1,533,427	1,880,352
8,653	1,554	30,845	108,119	930
<u>(3,909,529)</u>	<u>(4,268,014)</u>	<u>(4,491,627)</u>	<u>(4,179,888)</u>	<u>(3,944,781)</u>
<u>40,508,236</u>	<u>34,165,480</u>	<u>34,648,353</u>	<u>38,042,270</u>	<u>43,548,928</u>
<u>2,385,909</u>	<u>(4,678,888)</u>	<u>(876,375)</u>	<u>2,398,544</u>	<u>4,865,911</u>

Concluded on the following page

STATE OF TEXAS
Statistical Section – Financial Trends Information
Changes in Net Position (concluded)

Last Ten Fiscal Years

(Amounts in Thousands)

	2003	2004	2005	2006	2007
BUSINESS-TYPE ACTIVITIES:					
Expenses					
General Government	\$ 235,098	\$ 187,064	\$ 142,142	\$ 162,499	\$ 186,628
Education	13,340,397	13,538,233	14,716,405	15,982,582	17,165,602
Employee Benefits	517,912	615,692			
Teacher Retirement State Contributions			761,240	813,133	909,845
Health and Human Services	2,964,169	2,203,096	1,540,459	1,253,431	1,204,609
Public Safety and Corrections	68,419	68,828	71,308	73,775	75,305
Transportation	16,937	22,725	346	16,339	125,910
Natural Resources and Recreation	157,902	146,815	264,707	284,241	283,653
Regulatory Services					
Lottery	2,163,670	2,426,019	2,594,241	2,687,084	2,691,210
Total Expenses	<u>19,464,504</u>	<u>19,208,472</u>	<u>20,090,848</u>	<u>21,273,084</u>	<u>22,642,762</u>
Program Revenues					
Charges for Services:					
General Government	50,669	44,166	27,947	37,245	42,713
Education	5,549,390	5,845,956	6,662,679	7,284,371	8,268,639
Employee Benefits	584,709	758,255			
Teacher Retirement State Contributions			823,910	861,648	939,879
Health and Human Services	1,603,241	1,783,807	1,963,403	1,862,804	1,665,242
Public Safety and Corrections	71,694	75,094	77,521	79,032	82,779
Transportation		39,162	14	13	16,757
Natural Resources and Recreation	3,002	3,911	22,106	33,716	41,034
Lottery	3,131,532	3,488,941	3,663,414	3,775,491	3,774,948
Operating Grants and Contributions	6,244,537	6,356,243	8,086,139	7,200,099	9,001,427
Capital Grants and Contributions	162,991	272,997	211,726	155,541	197,731
Total Program Revenues	<u>17,401,765</u>	<u>18,668,532</u>	<u>21,538,859</u>	<u>21,289,960</u>	<u>24,031,149</u>
Total Business-Type Activities					
Net Program Revenue (Expense)	<u>(2,062,739)</u>	<u>(539,940)</u>	<u>1,448,011</u>	<u>16,876</u>	<u>1,388,387</u>
General Revenues					
Unrestricted Investment Earnings	28,020	193,347	68,423	55,150	245,977
Settlement of Claims	5	4	20	94	283
Gain on Sale of Capital Assets			6,431	276	13,363
Other General Revenue	329,235	194,474	126,957	91,017	266,722
Capital Contributions	1,318	2,715	133	3,874	1,364
Contributions to Permanent and Term Endowments	235,997	235,182	145,919	123,939	184,193
Special Items				(38,898)	(318,813)
Extraordinary Items	36,532	(13,401)			
Transfers	<u>3,069,447</u>	<u>2,867,137</u>	<u>2,966,197</u>	<u>3,513,639</u>	<u>3,383,910</u>
Total General Revenues, Contributions, Special Items, Extraordinary Items and Transfers	<u>3,700,554</u>	<u>3,479,458</u>	<u>3,314,080</u>	<u>3,749,091</u>	<u>3,776,999</u>
Change in Net Position – Business-Type Activities	<u>1,637,815</u>	<u>2,939,518</u>	<u>4,762,091</u>	<u>3,765,967</u>	<u>5,165,386</u>
Change in Net Position – Primary Government	<u>\$ 1,940,201</u>	<u>\$ 7,050,801</u>	<u>\$11,644,558</u>	<u>\$ 12,190,327</u>	<u>\$ 13,388,286</u>

2008	2009	2010	2011	2012
\$ 177,012	\$ 180,543	\$ 162,620	\$ 150,406	\$ 149,663
18,619,716	20,135,452	20,943,292	22,226,690	22,667,443
1,467,185	4,908,112	7,826,452	6,055,958	5,117,829
80,607	83,498	87,120	86,262	91,313
164,280	220,881	206,822	209,880	215,845
247,018	304,577	353,641	423,140	346,150
2,634,446	2,680,273	2,681,627	2,783,798	3,027,943
23,390,264	28,513,336	32,261,574	31,936,134	31,616,186
43,106	42,147	47,377	49,717	50,996
8,705,756	9,253,972	9,907,344	10,931,371	11,671,987
1,058,134	1,027,897	2,107,474	2,675,581	2,894,246
87,365	90,469	93,734	95,736	102,593
48,958	66,375	73,312	74,877	85,819
42,964	46,682	44,973	43,374	40,084
3,672,423	3,720,995	3,739,165	3,811,862	4,191,587
4,808,580	3,613,083	13,292,594	14,103,243	12,543,063
245,962	95,889	305,669	281,741	259,750
18,713,248	17,957,509	29,611,642	32,067,502	31,840,125
(4,677,016)	(10,555,827)	(2,649,932)	131,368	223,939
190,974	129,445	134,195	86,295	133,680
6	14,691	1,384	1,215	378
269	609		1	543
270,787	156,903	241,013	222,640	248,725
			3,045	
167,692	120,404	136,577	126,971	136,800
(150,026)				
3,909,529	4,268,014	4,491,627	4,179,888	3,944,781
4,389,231	4,690,066	5,004,796	4,620,055	4,464,907
(287,785)	(5,865,761)	2,354,864	4,751,423	4,688,846
\$ 2,098,124	\$ (10,544,649)	\$ 1,478,489	\$ 7,149,967	\$ 9,554,757

STATE OF TEXAS
Statistical Section – Financial Trends Information
Fund Balances – Governmental Funds
Last Ten Fiscal Years

(Amounts in Millions)

	2003	2004	2005	2006	2007	2008	2009	2010
GENERAL FUND								
Reserved	\$ 1,042	\$ 1,185	\$ 1,752	\$ 1,648	\$ 2,138	\$ 2,471	\$ 3,380	\$ 5,460
Unreserved	(2,326)	(1,562)	286	5,673	8,698	8,184	5,586	2,950
Total General Fund	<u>\$ (1,284)</u>	<u>\$ (377)</u>	<u>\$ 2,038</u>	<u>\$ 7,321</u>	<u>\$ 10,836</u>	<u>\$ 10,655</u>	<u>\$ 8,966</u>	<u>\$ 8,410</u>
ALL OTHER GOVERNMENTAL FUNDS								
Reserved	\$ 20,485	\$ 21,850	\$ 24,275	\$ 25,999	\$ 29,054	\$ 27,957	\$ 25,586	\$ 28,193
Unreserved								
Special Revenue	1,256	1,309	1,460	910	1,847	4,953	5,323	3,343
Capital Projects	14	15		7	(11)	(124)	(111)	(204)
Permanent	458	492	546	575	632	564	477	1,028
Total All Other Governmental Funds	<u>\$ 22,213</u>	<u>\$ 23,666</u>	<u>\$ 26,281</u>	<u>\$ 27,491</u>	<u>\$ 31,522</u>	<u>\$ 33,350</u>	<u>\$ 31,275</u>	<u>\$ 32,360</u>

	2011*	2012
GENERAL FUND		
Nonspendable	\$ 501	\$ 678
Restricted	1,393	1,764
Committed	4,185	5,283
Assigned	29	44
Unassigned	1,077	1,095
Total General Fund	<u>\$ 7,185</u>	<u>\$ 8,864</u>

ALL OTHER GOVERNMENTAL FUNDS		
Nonspendable	\$ 12,254	\$ 12,915
Restricted	22,606	21,897
Committed	758	1,013
Assigned	2	2
Unassigned	(738)	(511)
Total All Other Governmental Funds	<u>\$ 34,882</u>	<u>\$ 35,316</u>

* Due to the changes in the state's fund structure initiated when GASB Statement No. 54 was implemented, information for fund balances is available for the line items presented only beginning in fiscal 2011.

Source: 2003-12 state of Texas financial statements

STATE OF TEXAS
Statistical Section – Financial Trends Information
Changes in Fund Balances – Governmental Funds
Last Ten Fiscal Years*

(Amounts in Millions)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
REVENUES BY SOURCE										
Tax Collections	\$ 25,939	\$ 27,976	\$ 29,830	\$ 33,867	\$ 36,670	\$ 41,256	\$ 37,654	\$ 35,868	\$ 39,632	\$ 44,171
Federal Funds	23,017	24,382	25,851	28,212	26,967	28,656	35,699	42,483	44,907	38,219
Licenses, Fees and Permits	2,921	3,332	3,590	4,011	4,324	4,522	4,433	4,533	4,661	5,076
Interest and Other Investment Income	2,118	2,435	3,317	3,218	4,574	(368)	(1,957)	2,171	3,609	3,204
Land Income	298	482	544	462	422	650	390	384	551	432
Settlement of Claims	563	523	883	583	539	555	555	614	593	611
Sales of Goods and Services	1,131	1,109	1,445	1,503	2,697	2,063	1,962	1,816	2,125	1,860
Other Revenues	1,464	1,754	1,918	2,159	2,730	2,590	3,192	3,499	3,087	3,888
Total Revenues	57,451	61,993	67,378	74,015	78,923	79,924	81,928	91,368	99,165	97,461
EXPENDITURES BY FUNCTION										
General Government	1,961	2,191	2,151	2,530	2,415	2,628	3,025	3,352	3,981	3,065
Education	15,927	16,220	16,204	18,025	21,317	24,976	24,941	27,331	28,639	25,715
Employee Benefits	12	12	12	13	14	14	13	15	14	14
Teacher Retirement State Contributions						1,781	1,729	1,830	1,854	1,641
Health and Human Services	24,690	25,039	27,192	28,761	30,855	32,355	37,988	41,367	44,869	44,709
Public Safety and Corrections	4,067	3,887	3,952	4,939	4,897	4,864	5,802	6,006	5,415	5,114
Transportation	3,065	2,970	3,246	3,909	3,702	3,895	3,399	3,474	3,647	3,788
Natural Resources and Recreation	787	844	1,039	930	1,172	1,420	1,606	1,566	1,518	1,619
Regulatory Services	311	371	345	294	317	393	434	438	407	412
Debt Service:										
Principal	367	211	306	393	437	415	596	731	592	580
Interest	360	335	375	238	370	428	513	720	757	725
Other Financing Fees				2	14	15	15	41	16	8
Capital Outlay	2,654	2,830	3,735	3,938	4,368	4,404	3,738	3,539	3,737	3,528
Total Expenditures	54,201	54,910	58,557	63,972	69,878	77,588	83,799	90,410	95,446	90,918
Excess (Deficiency) of Revenues										
Over (Under) Expenditures	3,250	7,083	8,821	10,043	9,045	2,336	(1,871)	958	3,719	6,543
OTHER FINANCING SOURCES (USES)										
Transfer In	5,793	6,984	7,488	7,343	7,765	13,832	9,737	11,465	6,138	7,278
Transfer Out	(10,937)	(11,842)	(12,248)	(12,433)	(12,887)	(17,777)	(14,033)	(15,987)	(10,344)	(11,249)
Bonds and Notes Issued	383	87	1,242	1,440	3,471	2,988	1,940	3,808	1,566	338
Bonds Issued for Refunding	164	58	208	72	249	515	271	385	547	38
Payment to Escrow for Refunding	(164)	(69)	(208)	(72)	(263)	(559)	(309)	(214)	(580)	(62)
Premiums on Bonds Issued **					126	180	33	48	85	14
Sale of Capital Assets	21	50	37	17	29	22	16	14	9	31
Increases in Obligations Under Capital Leases	4			3		1		10	3	3
Insurance Recoveries				7	2	15	18	15	12	2
Total Other Financing Sources (Uses)	(4,736)	(4,732)	(3,481)	(3,623)	(1,508)	(783)	(2,327)	(456)	(2,564)	(3,607)
NET CHANGE IN FUND BALANCES	\$ (1,486)	\$ 2,351	\$ 5,340	\$ 6,420	\$ 7,537	\$ 1,553	\$ (4,198)	\$ 502	\$ 1,155	\$ 2,936
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES										
	1.4%	1.0%	1.2%	1.1%	1.3%	1.2%	1.4%	1.7%	1.5%	1.5%

* This table is comprised of the following funds: general, special revenue, debt service, capital projects and permanent.

** Premiums on bonds issued were combined with bonds and notes issued in years prior to 2007.

Source: 2003-12 state of Texas financial statements

STATE OF TEXAS
Statistical Section – Revenue Capacity Information
Taxable Sales by Industry
For the Calendar Years 2002 through 2011*

(Amounts in Millions)

NAICS** Industry	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Agriculture, Forestry, Fishing, Hunting	\$ 127	\$ 108	\$ 105	\$ 137	\$ 149	\$ 147	\$ 152	\$ 132	\$ 138	\$ 146
Mining, Quarrying, Oil & Gas Extraction	2,862	3,342	3,897	5,329	8,143	11,351	15,950	10,038	13,361	21,502
Utilities	4,801	5,282	5,485	7,543	9,022	9,305	9,881	9,576	9,491	10,217
Construction	6,857	7,003	8,071	9,271	11,583	13,144	14,180	11,013	10,847	12,645
Manufacturing	17,653	16,319	17,543	20,733	24,336	27,021	27,145	22,423	23,256	28,089
Wholesale Trade	14,919	17,324	19,000	21,634	25,044	26,663	28,512	22,225	22,585	27,281
Retail Trade	99,690	102,215	108,078	116,307	127,389	135,050	138,266	130,657	134,900	140,985
Transportation, Warehousing	830	1,208	1,390	1,317	1,805	1,832	2,907	2,168	1,933	3,249
Information	23,884	23,900	24,804	26,579	29,538	30,933	33,305	32,753	33,321	34,492
Finance, Insurance	1,955	1,894	1,819	1,913	2,099	2,183	2,868	2,637	2,423	2,699
Real Estate, Rental, Leasing	5,766	5,569	5,820	6,832	8,102	9,062	9,397	7,348	7,391	8,942
Professional, Scientific, Technical Serv.	5,147	4,812	5,181	6,282	7,069	7,657	8,400	7,760	7,683	8,686
Management of Companies, Enterprises	1,649	1,930	1,972	2,008	802	525	854	322	303	372
Admin Supt Waste Mgmt Remediation Serv.	6,827	7,050	7,554	7,995	8,692	9,434	9,886	9,368	9,563	10,040
Educational Services	281	294	341	379	406	428	337	371	450	473,281
Health Care, Social Assistance	422	513	547	600	623	743	757	790	812	866
Arts, Entertainment, Recreation	2,316	2,710	2,885	2,875	3,019	3,215	3,481	3,537	3,633	3,885
Accommodation, Food Services	22,931	23,653	25,438	27,313	29,750	31,962	33,667	33,246	34,600	37,126
Other Services (Except Public Admin)	5,892	6,083	6,295	6,824	7,452	7,889	8,087	7,248	7,632	8,358
Public Administration	1,881	1,692	2,072	1,565	1,474	1,468	1,641	1,662	1,676	1,739
Nonclassifiable	5	9	8	8	6	4	4	4	4	6
Other	3,263	1,655	648	221	98	57	19	56	66	133
Total Taxable Sales	<u>\$ 229,958</u>	<u>\$ 234,565</u>	<u>\$ 248,953</u>	<u>\$ 273,665</u>	<u>\$ 306,601</u>	<u>\$ 330,073</u>	<u>\$ 349,696</u>	<u>\$ 315,334</u>	<u>\$ 326,068</u>	<u>\$ 834,739</u>
Direct Sales Tax Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

* Fiscal 2012 data is not available until mid-year of the following fiscal year.

** North American Industry Classification System

Note: The amount of sales tax revenue should not be calculated from the table as there are numerous adjustments, allocations and refunds to arrive at actual taxable revenue.

Source: Texas Comptroller of Public Accounts, "Quarterly Sales Tax Reports"

STATE OF TEXAS

Statistical Section – Revenue Capacity Information

State Tax Collections and Retail Sales

Last Ten Fiscal Years

(Amounts in Millions, Except Per Capita State Tax Collections and Percentage Data)

State Tax Collections Per Capita, 2003-12*

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Tax Collections	\$25,939	\$27,976	\$29,830	\$33,867	\$36,670	\$41,256	\$37,654	\$35,868	\$39,632	\$44,171
Percentage Tax Collection Change From Prior Year	3.2%	7.9%	6.6%	13.5%	8.3%	12.5%	(8.7)%	(4.7)%	10.5%	11.5%
Resident Population	21.9	22.3	22.7	23.3	23.8	24.2	24.7	25.1	25.6	26.0
Percentage Population Change From Prior Year	1.6%	1.6%	1.8%	2.6%	1.9%	2.0%	2.0%	1.9%	1.7%	1.6%
State Tax Collections Per Capita	\$ 1,184	\$ 1,255	\$ 1,314	\$ 1,454	\$ 1,541	\$ 1,705	\$ 1,524	\$ 1,429	\$ 1,548	\$ 1,699

* This table is comprised of the following funds: general, special revenue, debt service and capital projects.

Source: Tax collection figures are from the 2003-12 state of Texas financial statements.

Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis and were revised from prior years due to changes in methodology, inflation factors, price indicators and revisions to interim census figures.

Total Retail Sales

Last Ten Years*

(Amounts in Millions)

Year	Retail Sales	Percent Change
2003	\$306,342	5.4%
2004	\$340,363	11.1%
2005	\$364,788	7.2%
2006	\$380,303	4.3%
2007	\$394,884	3.8%
2008	\$435,256	10.2%
2009	\$389,524	(10.5)%
2010	\$400,445	2.8%
2011	\$435,901	8.9%
2012**	\$217,400	7.3%

* Reported amounts for retail sales may be revised as more complete information is received.

** Amount is for first half of fiscal 2012 and the percentage change is calculated over the first half of fiscal 2011.

Source: Texas Comptroller of Public Accounts.

STATE OF TEXAS
Statistical Section – Revenue Capacity Information
Texas Gross State Product by Industry
Last Ten Years*

(Amounts in Millions, Except Percentage Data)

NAICS** Industry	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Agriculture, Forestry and Fishing	\$ 8,345	\$ 9,871	\$ 8,493	\$ 7,290	\$ 8,724	\$ 7,717	\$ 6,145	\$ 9,762	\$ 9,889	\$ 9,470
% Change	19.8	18.3	(14.0)	(14.2)	19.7	(11.5)	(20.4)	58.9	1.3	(4.2)
Mining and Natural Resources	59,851	69,286	83,554	97,471	111,471	145,122	86,498	97,086	118,629	137,622
% Change	30.6	15.8	20.6	16.7	14.4	30.2	(40.4)	12.2	22.2	16.0
Construction	45,445	47,418	53,083	56,117	59,005	60,976	57,747	55,955	57,970	60,965
% Change	7.0	4.3	11.9	5.7	5.1	3.3	(5.3)	(3.1)	3.6	5.2
Manufacturing	98,171	131,971	137,612	158,139	173,041	151,287	138,928	173,194	192,004	201,242
% Change	1.6	34.4	4.3	14.9	9.4	(12.6)	(8.2)	24.7	10.9	4.8
Trade, Transportation and Utilities	161,431	170,650	181,079	196,465	210,414	217,974	207,280	217,670	229,814	241,874
% Change	3.7	5.7	6.1	8.5	7.1	3.6	(4.9)	5.0	5.6	5.2
Information	37,676	40,586	42,216	43,910	47,646	45,452	43,683	42,381	44,900	47,435
% Change	0.8	7.7	4.0	4.0	8.5	(4.6)	(3.9)	(3.0)	5.9	5.6
Financial Activities	133,401	135,190	142,816	151,970	163,052	181,704	181,212	193,232	199,389	204,666
% Change	3.2	1.3	5.6	6.4	7.3	11.4	(0.3)	6.6	3.2	2.6
Professional and Business Services	80,005	87,564	97,003	107,008	120,844	130,796	124,657	133,997	144,666	156,173
% Change	2.8	9.4	10.8	10.3	12.9	8.2	(4.7)	7.5	8.0	8.0
Educational and Health Services	53,447	57,783	59,376	63,422	67,928	73,130	79,255	85,408	90,001	94,269
% Change	5.7	8.1	2.8	6.8	7.1	7.7	8.4	7.8	5.4	4.7
Leisure and Hospitality Services	29,409	30,911	32,882	35,003	37,519	37,806	38,142	40,777	43,511	46,501
% Change	2.9	5.1	6.4	6.5	7.2	0.8	0.9	6.9	6.7	6.9
Other Private Services	20,633	21,321	22,499	23,832	25,478	27,231	27,856	29,470	31,208	32,713
% Change	0.7	3.3	5.5	5.9	6.9	6.9	2.3	5.8	5.9	4.8
Government, including Schools	96,675	101,130	107,943	113,784	122,229	130,078	138,137	143,967	146,146	147,174
% Change	5.9	4.6	6.7	5.4	7.4	6.4	6.2	4.2	1.5	0.7
TOTAL	\$824,489	\$903,681	\$968,556	\$1,054,411	\$1,147,351	\$1,209,273	\$1,129,540	\$1,222,899	\$1,308,127	\$1,380,104
% Change	5.3	9.6	7.2	8.9	8.8	5.4	(6.6)	8.3	7.0	5.5
TOTAL (In 2005 Chained Dollars)	914,892	964,924	968,556	1,016,315	1,071,592	1,077,144	1,057,675	1,113,104	1,149,908	1,186,540
% Change	2.4	5.5	0.4	4.9	5.4	0.5	(1.8)	5.2	3.3	3.2

* The U.S. Bureau of Economic Analysis periodically revises its personal income and gross product data for states. These revisions include data changes for previous years, as new and more complete information becomes available.

** North American Industry Classification System

Source: U.S. Bureau of Economic Analysis for 2003-2011 and Texas Comptroller of Public Accounts Forecast Model for 2012

STATE OF TEXAS
Statistical Section – Debt Capacity Information
Legal Debt Margin Information
Last Ten Fiscal Years

(Amounts in Thousands, Except Percentage Data)

	2003	2004	2005	2006	2007
Debt Service Limit*	\$ 1,318,449	\$ 1,344,627	\$ 1,405,937	\$ 1,518,628	\$ 1,664,884
Total Net Debt Service Applicable to Limit	<u>626,185</u>	<u>622,433</u>	<u>620,989</u>	<u>545,725</u>	<u>605,518</u>
Legal Debt Service Margin	<u>\$ 692,264</u>	<u>\$ 722,194</u>	<u>\$ 784,948</u>	<u>\$ 972,903</u>	<u>\$ 1,059,366</u>
Total Net Debt Service Applicable to Limit as a Percentage of Debt Service Limit	47.5%	46.3%	44.2%	35.9%	36.4%

	2008	2009	2010	2011	2012
Debt Service Limit*	\$ 1,773,089	\$ 1,795,118	\$ 1,759,856	\$ 1,782,305	\$ 1,908,572
Total Net Debt Service Applicable to Limit	<u>1,450,498</u>	<u>1,464,078</u>	<u>1,443,705</u>	<u>1,318,175</u>	<u>1,329,298</u>
Legal Debt Service Margin	<u>\$ 322,591</u>	<u>\$ 331,040</u>	<u>\$ 316,151</u>	<u>\$ 464,130</u>	<u>\$ 579,274</u>
Total Net Debt Service Applicable to the Limit as a Percentage of Debt Service Limit	81.8%	81.6%	82.0%	74.0%	69.7%

Legal Debt Service Margin Calculation for Fiscal 2012

Unrestricted General Revenue fiscal 2010	\$34,014,030
Unrestricted General Revenue fiscal 2011	38,213,158
Unrestricted General Revenue fiscal 2012	42,287,113
Debt Service Limit*	1,908,572
Debt Service Applicable to Limit:	
Debt Service on Outstanding Debt Payable from General Revenue (GR)	510,550
Plus: Estimated Debt Service on Authorized but Unissued Debt Payable From GR	<u>818,748</u>
Total Net Debt Service Applicable to Limit	1,329,298
Legal Debt Service Margin	<u>\$ 579,274</u>

* Debt service limit – Under state law, the maximum annual debt service in any fiscal year on state debt payable from the general revenue fund may not exceed 5 percent of an amount equal to the average of the unrestricted general revenue fund revenues for the three preceding fiscal years.

Source: Texas Bond Review Board

STATE OF TEXAS
Statistical Section – Debt Capacity Information
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years

(Amounts in Millions, Except Percentage Data and Per Capita)

Fiscal Year	Governmental Activities				Business-Type Activities				Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Revenue Bonds	Notes and Loans	Capital Leases	General Obligation Bonds	Revenue Bonds	Notes and Loans	Capital Leases			
2003	\$3,185	\$ 739	\$ 103	\$52	\$2,599	\$9,277	\$1,889	\$23	\$17,867	2.7%	808
2004	3,116	679	116	48	2,719	10,844	1,920	12	19,454	2.8%	865
2005	3,972	632	262	44	2,815	11,749	1,614	14	21,102	2.8%	921
2006	4,479	1,152	331	15	2,739	12,378	1,741	12	22,847	2.8%	975
2007	6,757	2,031	216	11	2,775	12,304	2,029	14	26,137	3.0%	1,094
2008	8,061	3,445	340	10	2,708	13,370	2,437	14	30,385	3.2%	1,250
2009	9,745	3,287	150	8	2,927	15,488	2,348	13	33,966	3.7%	1,367
2010	10,086	5,620	761	15	2,944	17,043	3,103	14	39,586	4.1%	1,563
2011	11,520	5,456	1,150	14	2,956	18,767	2,006	20	41,889	4.1%	1,624
2012	11,314	4,277	1,381	12	3,230	19,033	2,075	22	41,344	3.8%	1,584

Source: 2003-12 state of Texas financial statements

STATE OF TEXAS

Statistical Section – Debt Capacity Information**Ratios of General Bonded Debt Outstanding****Last Ten Fiscal Years***

(Amounts in Millions, Except Percentage Data and General Bonded Debt Per Capita)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Bonded Debt (General Obligation Bonds Only)	\$ 5,784	\$ 5,835	\$ 6,787	\$ 7,218	\$ 9,532	\$ 10,768	\$ 12,672	\$ 13,029	\$ 14,476	\$ 14,544
Percentage Bonded Debt Change From Prior Year	0.5%	0.9%	16.3%	6.4%	32.1%	13.0%	17.7%	2.8%	11.1%	0.5%
Tax Collections	25,939	27,976	29,830	33,867	36,670	41,256	37,654	35,868	39,632	44,171
Percentage Bonded Debt to Tax Collections	22.3%	20.9%	22.8%	21.3%	26.0%	26.1%	33.7%	36.3%	36.5%	32.9%
Resident Population	21.9	22.3	22.7	23.3	23.8	24.2	24.7	25.1	25.6	26.0
General Bonded Debt Per Capita	\$ 264	\$ 262	\$ 299	\$ 310	\$ 401	\$ 445	\$ 513	\$ 519	\$ 565	\$ 559

* Historical data may reflect a variety of changes in methodology, inflation factors, price indicators and revisions to interim census figures made by the U.S. Bureau of Economic Analysis.

Source: Bonded debt and tax collection amounts are from the 2003-12 state of Texas financial statements.

Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis.

STATE OF TEXAS
Statistical Section – Debt Capacity Information
Pledged Revenue Bond Coverage
Last Ten Fiscal Years

(Amounts in Thousands, Except Ratio Data)

	2003	2004	2005	2006	2007
GOVERNMENTAL ACTIVITIES					
Pledged Revenue Bond Amount	\$ 93,942	\$ 101,178	\$ 150,119	\$ 81,011	\$ 5,765,826
Operating Expenditures	11,772	2,525	15,540	1,452	6,881,279
Net Available Revenue	<u>\$ 82,170</u>	<u>\$ 98,653</u>	<u>\$ 134,579</u>	<u>\$ 79,559</u>	<u>\$ (1,115,453)</u>
Debt Service –					
Principal	\$ 74,106	\$ 77,058	\$ 84,087	\$ 86,056	\$ 104,077
Interest	37,478	33,314	26,115	25,764	66,822
Total Debt Service	<u>\$ 111,584</u>	<u>\$ 110,372</u>	<u>\$ 110,202</u>	<u>\$ 111,820</u>	<u>\$ 170,899</u>
Coverage Ratio	0.7	0.9	1.2	0.7	(6.5)
BUSINESS-TYPE ACTIVITIES					
Pledged Revenue Bond Amount	\$ 6,401,630	\$ 7,049,189	\$ 8,369,686	\$ 9,088,841	\$ 9,869,477
Operating Expenditures	536,191	885,294	839,699	364,043	1,457,567
Net Available Revenue	<u>\$ 5,865,439</u>	<u>\$ 6,163,895</u>	<u>\$ 7,529,987</u>	<u>\$ 8,724,798</u>	<u>\$ 8,411,910</u>
Debt Service –					
Principal	\$ 490,032	\$ 440,036	\$ 532,128	\$ 623,346	\$ 683,150
Interest	371,983	492,366	503,958	537,104	560,359
Total Debt Service	<u>\$ 862,015</u>	<u>\$ 932,402</u>	<u>\$ 1,036,086</u>	<u>\$ 1,160,450</u>	<u>\$ 1,243,509</u>
Coverage Ratio	6.8	6.6	7.3	7.5	6.8
COMPONENT UNITS*					
Pledged Revenue Bond Amount	\$ 16,215	\$ 11,781	\$ 13,524	\$ 13,704	\$ 13,034
Operating Expenditures		349	225	264	91
Net Available Revenue	<u>\$ 16,215</u>	<u>\$ 11,432</u>	<u>\$ 13,299</u>	<u>\$ 13,440</u>	<u>\$ 12,943</u>
Debt Service –					
Principal	\$ 12,130	\$ 11,050	\$	\$ 5,840	\$ 5,485
Interest	5,463	2,937	3,628	4,940	5,051
Total Debt Service	<u>\$ 17,593</u>	<u>\$ 13,987</u>	<u>\$ 3,628</u>	<u>\$ 10,780</u>	<u>\$ 10,536</u>
Coverage Ratio	0.9	0.8	3.7	1.2	1.2
Total Combined Coverage Ratio	6.0	5.9	6.7	6.9	5.1

* Component unit amounts from 2003 to 2007 were adjusted to reflect revised reporting of debt coverage in 2008 and 2009.

Note: This bond data includes operating revenues, interest earned on investments, other pledged revenues and other sources.
Operating expenditures include capital outlay expenditures.

Source: 2003-12 state of Texas financial statements and bond reporting system

2008	2009	2010	2011	2012
\$ 6,748,490 7,447,496	\$ 6,640,110 7,233,759	\$ 5,522,453 6,085,684	\$ 6,085,973 6,729,036	\$ 6,619,706 6,075,344
<u>\$ (699,006)</u>	<u>\$ (593,649)</u>	<u>\$ (563,231)</u>	<u>\$ (643,063)</u>	<u>\$ 544,362</u>
\$ 112,250 118,203	\$ 156,490 152,025	\$ 168,785 147,501	\$ 161,750 263,708	\$ 170,650 210,694
<u>\$ 230,453</u>	<u>\$ 308,515</u>	<u>\$ 316,286</u>	<u>\$ 425,458</u>	<u>\$ 381,344</u>
(3.0)	(1.9)	(1.8)	(1.5)	1.4
\$10,225,735 11,698,563	\$10,700,325 8,481,872	\$11,514,734 9,202,811	\$12,864,956 9,986,234	\$13,595,957 10,516,772
<u>\$ (1,472,828)</u>	<u>\$ 2,218,453</u>	<u>\$ 2,311,923</u>	<u>\$ 2,878,722</u>	<u>\$ 3,079,185</u>
\$ 420,487 558,666	\$ 455,540 620,323	\$ 482,474 703,116	\$ 638,223 792,065	\$ 637,203 827,258
<u>\$ 979,153</u>	<u>\$ 1,075,863</u>	<u>\$ 1,185,590</u>	<u>\$ 1,430,288</u>	<u>\$ 1,464,461</u>
(1.5)	2.1	2.0	2.0	2.1
\$ 10,971 552	\$ 62,397 1,051	\$ 63,667 1,332	\$ 97,297 1,038	\$ 42,905 754
<u>\$ 10,419</u>	<u>\$ 61,346</u>	<u>\$ 62,335</u>	<u>\$ 96,259</u>	<u>\$ 42,151</u>
\$ 5,090 3,610	\$ 78,793 16,926	\$ 42,762 5,194	\$ 58,588 11,760	\$ 29,849 10,943
<u>\$ 8,700</u>	<u>\$ 95,719</u>	<u>\$ 47,956</u>	<u>\$ 70,348</u>	<u>\$ 40,792</u>
1.2	0.6	1.3	1.4	1.0
(1.8)	1.1	1.2	1.2	1.9

STATE OF TEXAS
Statistical Section – Demographic and Economic Information
Texas Nonfarm Employment Detail: Number of Jobs
Calendar Years 2003-2012*

Employment by Industry	2003	2004	2005	2006	2007
GOODS-PRODUCING					
Natural Resources and Mining	146,600	153,042	166,000	185,775	207,417
Construction	552,000	544,267	566,750	605,308	648,150
Manufacturing					
Durables	560,375	559,883	570,183	599,750	613,117
Nondurables	338,992	330,483	326,650	324,175	321,008
Total, Goods-Producing	<u>1,597,967</u>	<u>1,587,675</u>	<u>1,629,583</u>	<u>1,715,008</u>	<u>1,789,692</u>
SERVICE-PROVIDING					
Trade, Transportation, and Utilities					
Wholesale Trade	458,458	463,100	477,267	497,883	518,892
Retail Trade	1,069,350	1,083,842	1,109,092	1,132,325	1,161,175
Transportation and Warehousing	339,533	350,656	361,274	374,729	387,571
Utilities	48,392	47,294	45,709	44,346	45,538
Information	233,725	224,875	223,083	221,592	220,983
Financial Activities					
Finance and Insurance	417,233	425,442	436,342	451,125	461,742
Real Estate and Rental and Leasing	168,275	169,883	173,142	177,067	182,225
Professional and Business Services					
Professional, Scientific and Technical	451,433	467,975	493,267	522,542	558,158
Management, Administrative and Support	607,267	632,633	668,400	718,275	744,142
Educational and Health Services					
Educational Services, Private	132,183	136,142	140,592	143,117	146,875
Health Care and Social Assistance	986,442	1,013,225	1,043,150	1,072,658	1,107,225
Leisure and Hospitality	858,550	885,025	906,833	940,283	979,792
Other Services	355,392	353,225	347,817	347,833	355,300
Government					
Federal Civilian	180,442	180,608	181,908	185,358	186,417
State	342,008	340,200	348,633	352,217	357,283
Local	1,124,267	1,134,092	1,152,575	1,167,408	1,189,642
Total, Service-Providing	<u>7,772,950</u>	<u>7,908,217</u>	<u>8,109,084</u>	<u>8,348,758</u>	<u>8,602,960</u>
Total Nonfarm Employment	<u>9,370,917</u>	<u>9,495,892</u>	<u>9,738,667</u>	<u>10,063,766</u>	<u>10,392,652</u>

* Data in the table are annual averages. Prior years are subject to annual benchmark revisions.

** Data for 2012 includes estimates for the final month.

Due to confidentiality issues, the names of the ten largest revenue payers are not available. This table provides alternative information regarding the source of the state's major tax revenue.

Source: Texas Workforce Commission and Texas Comptroller of Public Accounts

2008	2009	2010	2011	2012**
230,058	202,308	206,383	235,492	259,216
673,842	597,275	563,825	558,758	578,124
607,800	536,383	517,150	539,508	556,988
316,767	301,867	295,183	295,470	297,703
<u>1,828,467</u>	<u>1,637,833</u>	<u>1,582,541</u>	<u>1,629,228</u>	<u>1,692,031</u>
528,967	499,275	496,683	512,142	526,695
1,174,375	1,141,367	1,136,608	1,159,175	1,182,692
392,452	371,938	370,654	382,744	393,214
47,307	47,862	48,296	49,223	51,684
217,217	204,208	195,608	195,158	193,228
461,783	452,633	454,400	462,600	464,327
185,300	175,358	170,958	175,600	185,286
586,475	563,042	566,808	583,467	593,114
749,883	688,933	708,192	753,875	791,294
148,692	150,708	155,800	164,092	173,186
1,138,258	1,185,733	1,228,883	1,259,217	1,292,191
1,005,967	1,005,717	1,008,225	1,043,750	1,091,510
363,092	360,875	360,317	369,125	381,241
191,142	197,658	209,650	201,175	199,658
362,142	368,083	374,650	366,425	361,183
1,223,642	1,251,733	1,271,575	1,247,800	1,220,527
<u>8,776,694</u>	<u>8,665,123</u>	<u>8,757,307</u>	<u>8,925,568</u>	<u>9,101,030</u>
<u>10,605,161</u>	<u>10,302,956</u>	<u>10,339,848</u>	<u>10,554,796</u>	<u>10,793,061</u>

STATE OF TEXAS

Statistical Section – Demographic and Economic Information

Texas and U.S. Selected Statistics

Last Ten Calendar Years*

Year	Population (Thousands)				Total Personal Income (Millions)				Per Capita Income			
	Texas	Percent Change	U.S.	Percent Change	Texas	Percent Change	U.S.	Percent Change	Texas	Percent Change	U.S.	Percent Change
2003	22,077	1.6%	291,116	0.9%	652,610	3.9%	9,378,150	3.5%	29,560	2.2%	32,214	2.5%
2004	22,443	1.7%	293,758	0.9%	696,796	6.8%	9,937,275	6.0%	31,048	5.0%	33,828	5.0%
2005	22,897	2.0%	296,460	0.9%	756,683	8.6%	10,485,900	5.5%	33,047	6.4%	35,370	4.6%
2006	23,426	2.3%	299,282	1.0%	824,281	8.9%	11,268,100	7.5%	35,187	6.5%	37,650	6.4%
2007	23,891	2.0%	302,227	1.0%	884,119	7.3%	11,912,275	5.7%	37,006	5.2%	39,415	4.7%
2008	24,371	2.0%	304,948	0.9%	962,992	8.9%	12,460,150	4.6%	39,514	6.8%	40,860	3.7%
2009	24,857	2.0%	307,580	0.9%	907,630	(5.7)%	11,930,200	(4.3)%	36,515	(7.6)%	38,787	(5.1)%
2010	25,305	1.8%	310,064	0.8%	965,237	6.3%	12,373,525	3.7%	38,143	4.5%	39,906	2.9%
2011	25,729	1.7%	312,376	0.7%	1,030,750	6.8%	12,991,200	5.0%	40,063	5.0%	41,588	4.2%
2012**	26,107	1.5%	315,311	0.9%	1,081,448	4.9%	13,423,740	3.3%	41,423	3.4%	42,573	2.4%

* Prior years are subject to revisions.

** Numbers for 2012 include some forecast model quarterly estimates for the latter part of the year.

Source: U.S. Bureau of Economic Analysis, U.S. Bureau of the Census and Texas Comptroller of Public Accounts

Texas and U.S. Employment and
Unemployment Rates

Last Ten Calendar Years*

(Thousands of Jobs and Percent)

Year	Nonfarm Employment				Unemployment Percentage Rate	
	Texas	Percent Change	U.S.	Percent Change	Texas	U.S.
2003	9,370	(0.5)%	129,996	(0.3)%	6.7%	6.0%
2004	9,497	1.4%	131,419	1.1%	6.0%	5.5%
2005	9,740	2.6%	133,695	1.7%	5.3%	5.1%
2006	10,066	3.3%	136,092	1.8%	4.9%	4.6%
2007	10,395	3.3%	137,588	1.1%	4.4%	4.6%
2008	10,607	2.0%	136,794	(0.6)%	4.9%	5.8%
2009	10,307	(2.8)%	130,789	(4.4)%	7.5%	9.3%
2010	10,340	0.3%	129,856	(0.7)%	8.2%	9.6%
2011	10,555	2.1%	131,359	1.2%	7.9%	8.9%
2012**	10,793	2.3%	133,241	1.4%	6.9%	8.1%

* Prior years are subject to benchmark revisions.

** Texas numbers for 2012 include an estimate for the final month of the year.

Source: Texas Workforce Commission, Texas Comptroller of Public Accounts
and U.S. Bureau of Labor Statistics – historical data was revised

STATE OF TEXAS
Statistical Section – Operating Information
Full-Time Equivalent Employees by Function
Last Ten Fiscal Years

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
FUNCTION										
General Government	13,607	13,034	13,435	12,999	13,438	13,155	13,720	13,801	13,692	12,955
Education	133,857	134,456	140,367	144,636	146,944	152,121	156,375	159,918	161,636	161,670
Employee Benefits	315	302	292	294	302	311	325	344	338	334
Teacher Retirement State Contributions	441	440	451	444	445	454	476	496	514	515
Health and Human Services	52,238	49,288	48,389	49,097	50,910	53,161	56,067	58,071	58,717	57,790
Public Safety and Corrections	53,231	51,473	51,397	51,564	50,889	50,340	52,165	53,209	51,771	52,310
Transportation	14,717	14,078	14,551	14,744	14,748	14,148	13,257	12,692	12,513	12,436
Natural Resources and Recreation	8,299	7,990	8,053	8,018	8,014	8,264	8,484	8,646	8,388	7,855
Regulatory Services	3,882	3,779	3,882	3,869	3,828	3,891	4,048	4,052	3,942	3,841
Total FTEs	<u>280,587</u>	<u>274,840</u>	<u>280,817</u>	<u>285,665</u>	<u>289,518</u>	<u>295,845</u>	<u>304,917</u>	<u>311,229</u>	<u>311,511</u>	<u>309,706</u>
Percentage Change	1.3%	(2.0)%	2.2%	1.7%	1.3%	2.2%	3.1%	2.1%	0.1%	(0.6)%

Source: Texas State Auditor's Office

STATE OF TEXAS
Statistical Section – Operating Information
Capital Asset Statistics by Function
Last Eight Fiscal Years*

Function	2005	2006	2007	2008	2009	2010	2011	2012
GENERAL GOVERNMENT								
Number of Texas Facilities Commission Owned Facilities	71	75	75	137	137	133	133	131
State Real Property Inventory in Acres	2,446,418	2,425,037	1,322,123	1,325,319	1,329,671	1,342,038	1,333,113	1,342,680
EDUCATION								
Number of School Districts (Independent and Common)	1,037	1,033	1,031	1,031	1,031	1,030	1,029	1,244
Number of Students	4,383,871	4,505,572	4,576,933	4,671,493	4,749,571	4,847,844	4,933,617	4,978,120
Number of Higher Education Institutions	145	145	145	145	145	148	148	148
HEALTH AND HUMAN SERVICES								
Number of State Mental Health Facilities	39	39	39	39	39	39	39	39
Number of State Hospitals	10	10	10	11	11	11	11	11
PUBLIC SAFETY AND CORRECTIONS								
Number of State Prisons – Texas Department of Criminal Justice only	106	106	106	112	113	112	111	111
Number of Available Beds (Capacity)	155,277	156,520	156,652	160,622	159,656	159,771	163,144	162,057
Number of Authorized Vehicular State Patrol Units	1,095	1,195	1,281	1,281	1,494	1,811	1,572	1,791
TRANSPORTATION								
Centerline Miles of Highways**	79,645	79,696	79,849	79,975	80,066	79,903	79,903	80,233
Number of Bridges***	32,421	33,322	32,996	33,118	33,393	33,679	33,883	34,337
NATURAL RESOURCES AND RECREATION								
Number of State Parks Managed	117	112	110	93	93	93	93	94
Number of Park Acreage	610,319	608,716	602,892	605,470	614,790	604,799	621,491	624,602

* Prior years are subject to revisions.

** Highway miles = state maintained centerline miles (miles traveled in one direction regardless of the number of lanes in a roadway).

*** Number of bridges are the bridges owned by the state. Texas Department of Transportation also works on off-system bridges (county and city-owned bridges). Off-system bridges are not included in the number of bridges total.

Source: Various state agencies and official state agency websites. Complete capital asset statistics by function for all data presented only available from 2005-12.

STATE OF TEXAS
Statistical Section – Operating Information
Operating Indicators by Function
Last Eight Fiscal Years

Function	2005	2006	2007	2008	2009	2010	2011	2012
GENERAL GOVERNMENT / REGULATORY SERVICES								
Number of Tax Returns Processed	3,796,940	3,904,659	4,251,103	4,054,947	4,471,082	4,594,272	4,642,495	4,820,459
Number of Licenses Issued	1,494,693	1,554,754	1,166,069	1,243,330	1,310,014	1,314,903	1,332,146	1,422,788
EDUCATION								
Average Daily School Attendance (ADA)	4,099,615	4,205,729	4,260,406	4,326,176	4,420,134	4,506,950	4,592,226	4,633,341
Percent of Students Passing TAKS Test*	62%	67%	70%	72%	74%	77%	76%	N/A
Texas Higher Education Enrollments	1,184,373	1,211,582	1,228,897	1,264,286	1,366,436	1,464,081	1,509,098	1,481,581
Higher Education Degrees Awarded**	185,326	188,258	193,321	198,298	209,868	224,498	238,665	N/A
HEALTH AND HUMAN SERVICES								
Number of Medicaid Clients Served***	2,779,373	2,873,786	2,832,214	2,877,203	3,002,731	3,296,439	3,541,286	3,652,574
Number of TANF Clients Served ***	219,045	172,776	145,838	125,309	113,786	121,290	116,386	107,274
Number of Immunizations	6,381,835	11,617,682	12,827,417	12,771,928	12,734,334	14,412,427	12,258,819	13,393,087
PUBLIC SAFETY AND CORRECTIONS								
Number of New Prison Population	73,815	74,170	73,525	74,283	72,738	72,315	73,988	74,232
Number of Prison Population Released	69,846	71,214	72,032	72,002	72,218	71,063	70,916	77,316
Average Daily Prison Population	151,448	151,734	152,805	155,588	155,432	154,315	155,830	154,933
Authorized Number of Troopers Patrolling Texas Highways	1,628	1,628	1,689	1,709	1,825	1,814	1,794	1,791
TRANSPORTATION								
Number of Construction Contracts Processed for Letting	989	1,075	877	694	710	1,169	944	750
Number of Lane Miles Receiving Roadway Surface Improvements: – By Contract	18,554	15,811	13,197	8,462	15,671	16,160	14,749	18,693
– Via State Sources	7,318	6,406	5,984	6,344	5,910	6,718	8,389	9,643
Number of Vehicles Registered	19,624,460	20,609,866	21,432,773	24,359,319	24,607,246	21,570,282	21,939,786	22,618,153
NATURAL RESOURCES AND RECREATION								
Number of State Parks Visits (in Millions)	5.2	5.0	4.9	4.3	4.5	4.4	4.3	4.3
Number of Parks and Wildlife Licenses Issued****	2,626,957	2,625,225	2,665,045	2,892,695	2,932,002	2,749,336	2,873,967	2,891,267

* The TAKS (Texas Assessment of Knowledge and Skills) is being phased out beginning in 2012 and will be replaced by the STARR (State of Texas Assessments of Academic Readiness). Due to the transition, ratings were suspended in 2012 while a new accountability system is developed. The new state rating system will debut in 2013.

** The 2012 degrees conferred will not be available until later in 2013.

*** Prior years are subject to revisions. Medicaid caseload is based on data through December 2012. Fiscal 2011 data was finalized March 2012, and fiscal 2012 data will be finalized March 2013. TANF is based on data through November 2012.

**** Includes commercial and recreational licenses, stamps, tags and permits. Does not include items such as hunting lease license sales, collector's stamp sales, hunt drawing sales and other similar items sold through the Point-of-Sale System.

Other Sources: Various state agencies, state agency reports and official state agency websites (complete operating indicators by function for all data presented only available from 2005-12).



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